CALSTRS

TOGETHER WE GROW

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

COMPREHENSIVE ANNUAL FINANCIAL REPORT

A COMPONENT UNIT OF THE STATE OF CALIFORNIA

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

CALSTRS

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

A Component Unit of the State of California

Comprehensive Annual Financial Report

for the Fiscal Year Ended June 30, 2013

Prepared by CalSTRS staff

MISSION

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

STRATEGIC GOALS

Financial
Ensure a financially sound retirement system.

Risk Management
Responsibly manage risk to the organization.

Member/Customer
Enhance services to members and customers.

Workforce and Process Improvements
Improve the work environment and internal efficiency.

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INTRODUCTION

CALSTRS

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

December 20, 2013

The Comprehensive Annual Financial Report issued by the California State Teachers' Retirement System details the fund's performance for the fiscal year ending June 30, 2013. Implementation of new pension legislation, refined corporate governance practices, and a continued focus on securing a long-term funding solution marked this centennial anniversary.

For CalSTRS, 2013 is an especially significant year as we celebrated 100 years of service to California's educators and their families. CalSTRS began in 1913 with 16,020 active and retired members, and has grown to 868,493 members with $166.8 billion in net assets as of June 30, 2013. CalSTRS was founded upon the principle that hard-earned retirement benefits reward decades of classroom service. This principle remains constant throughout our prominent history and sustains our business model now and in the future.

One hundred years of service is an accomplishment to be proud of, and wonderful, time-honoring events commemorated this special occasion. The first event kicked off with the launch of the redesigned CalSTRS.com website in January. In June, CalSTRS held a special reception to honor members who are 100 years and older and to recognize the dedication of members with 50 or more years of service credit. CalSTRS staff also produced a special video highlighting relevant points in California's history while chronicling the evolution of CalSTRS, which plays proudly on our website.

We believe delivering on our promise of a secure retirement educators have come to count on for 100 years is an accomplishment to celebrate.

Pension Legislation

The California Public Employees' Pension Reform Act of 2013 (AB 340 – Furutani, Chapter 296, Statutes of 2012), made changes to CalSTRS benefit programs that primarily affect those who are first hired on or after January 1, 2013, to perform CalSTRS creditable service. These members are under the new benefit structure known as CalSTRS 2% at 62. Educators who were CalSTRS members before 2013, terminated their membership, and then returned to active membership on or after January 1, 2013, remain under the existing benefit structure, known as CalSTRS 2% at 60. Significant changes in AB 340 that apply to members under CalSTRS 2% at 62 benefit structure:

- Reduced the age factor for any specific age, and increased both the normal retirement age and the minimum retirement age, regardless of years of service.
- Eliminated the career factor.

- Required that final compensation be calculated based on the highest average annual salary rate over three consecutive school years, regardless of years of service.
- Reduced the limit on compensation that counts toward the retirement benefit paid by CalSTRS. For 2% at 62 members, the 2013 cap is $136,440.
- Limited the type of compensation that counts toward a CalSTRS retirement benefit.
- Prohibited the payment of benefits in excess of the limitation imposed by the Internal Revenue Code.

Other provisions of AB 340 that apply to both CalSTRS 2% at 60 and CalSTRS 2% at 62 members include:

- Prohibiting the purchase of nonqualified service, or airtime, after December 31, 2012.
- Requiring that a conviction for a felony that is related to the member's official duties result in the forfeiture of CalSTRS benefits beginning from the date the felony was committed.
- Requiring that a Defined Benefit member's benefit be reduced dollar for dollar, regardless of age, for the first 180 days after retirement if the member performs activities in the public schools that are creditable to CalSTRS, unless the governing body of the school district takes specified actions with respect to a member who is above normal retirement age.
- Extending a very limited exemption from the postretirement earnings limit through 2013-14, and prohibiting the granting of the exemption if the member received an incentive to retire in the previous six months.
- Prohibiting any enhancement to the Defined Benefit from applying to service performed prior to the effective date of the enhancement.

AB 340 also requires the contribution rate for CalSTRS 2% at 62 members to equal 50 percent of the normal, ongoing cost of benefits.

Overall, the new pension legislation provides important efforts to curtail pension abuses, such as inappropriate benefit enhancement, and recognizes the appropriateness of the existing CalSTRS plan design. However, the new legislation does not provide a specific funding solution necessary to secure the long-term obligations of the Defined Benefit Program.

Funding Status

CalSTRS' mission to secure the financial future of our members is the driving force behind our efforts to shore up funding deficiencies in the Defined Benefit Program. The June 30, 2012, actuarial valuation of the Defined Benefit Program shows an Unfunded Actuarial Obligation of $71 billion, an increase in the UAO of $6.5 billion from the previous year's valuation. The resulting funded ratio decreases to 67 percent, down from 69 percent the previous year. As anticipated, current calculations continue to demonstrate the program will deplete its assets in little more than 30 years absent any changes in contribution rates or liabilities. Consequently, CalSTRS has been working for some time to raise awareness of the $71 billion funding shortfall, the cost of waiting to address the issue, and the ultimate risk failing to do so presents to the state's General Fund.

On February 14, 2013, CalSTRS submitted its report of possible funding strategies, Sustaining Retirement Security for Future Generations: Funding the California State Teachers' Retirement System, to the Legislature pursuant to Senate Concurrent Resolution 105. The report, developed with input from stakeholders, identifies funding options and illustrates the implications of gradual, incremental contribution increases necessary to close the $71 billion funding gap and secure the long-term needs of the program.

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Reactions to the report from the Legislative Analyst's Office and various editorial pages have been very encouraging. Furthermore extensive legislative visits that took place throughout the year have resulted in constructive recognition of the need to stabilize CalSTRS funding. While these initial actions bring promising direction, CalSTRS recognizes that there remains no formal funding plan proposal forthcoming from the Governor or Legislature.

CalSTRS administers fair, hard-earned pension benefits for California's educators and their families, and has successfully done so for 100 years. Dependable pension benefits that span another century and beyond can exist, but not without a plan to secure the long-term funding needs of the Defined Benefit Program. The solution is a gradual and predictable increase in contribution rates that can be fair to all parties involved. We are confident the funding shortfall can be managed, but it requires a desire to see the Legislature's intent come to fruition, as expressed in SCR 105. CalSTRS stands ready to assist the Governor and Legislature as they consider enacting a solution to restore the long-term viability of the Defined Benefit Program.

Corporate Governance

CalSTRS uses corporate governance as a tool to mitigate portfolio risk. Environmental, social and corporate governance principles are the framework that governs the CalSTRS business process and the fundamentals that CalSTRS' investment strategy is built upon. CalSTRS recognizes that long-term value creation, through better corporate governance, is significant to producing better returns.

Majority Voting Engagement

As shareowners, CalSTRS depends on corporate directors to protect the fund's best interests. To that end, CalSTRS believes that directors should only be elected if the majority of shareholders vote in favor of their election. While the vast majority of directors are elected with more than 90 percent of the vote, every year there are directors who receive less than 50 percent support and are still re-elected to the board.

During the fiscal year 2012–13 proxy season, CalSTRS engaged 82 companies in its portfolio on majority voting. The number of majority voting proposals far outweighed the number of shareholder proposals filed on any other issue. CalSTRS core objective in majority voting engagement centers on greater proxy access. CalSTRS believes that a true majority vote standard is an important risk mitigation tool that should be used by shareholders to protect and enhance the value of their assets. This year's majority voting campaign was very successful with 24 companies adopting a majority voting standard voluntarily, and another 42 of CalSTRS proposals were withdrawn after successful negotiations, 11 proposals went to vote and passed and another five proposals received high support but did not achieve a majority.

Sustainability Risk Management Engagement

CalSTRS targeted 100 companies in the Russell 1000 index portfolio who lacked sufficient disclosure of energy and water use management. More than 30 companies responded with evidence of their desire to either disclose efficiency effort results or consider alternative approaches. On the heels of this progress, we've expanded our engagement to fossil fuel valuation. CalSTRS also began engagement with 17 portfolio companies involved in hydraulic fracturing (fracking) to discuss how these companies manage risks associated with their fracking operations. CalSTRS expects to build on this work in the coming years as another part of the Sustainability Risk Management Program. In addition to these engagement programs, CalSTRS also identified six companies for shareholder proposals in the environmental sustainability area—five of these proposals have been withdrawn as the issues have been successfully negotiated. The sixth proposal was omitted from the issuer's proxy as the Securities Exchange Commission (SEC) agreed with the company that our proposal pertained to ordinary business and was therefore excludable.

Diversity on Corporate Boards

CalSTRS introduced five shareholder resolutions asking that companies amend their relevant charter documents to include diversity as a criterion in the selection and evaluation of candidates for directorships on their boards. After the companies committed to consider diversity, all five proposals were withdrawn. CalSTRS considers this a win-win situation for both companies and shareholders. In the coming years, CalSTRS intends to build upon its early work on board composition and diversity.

Technology Infrastructure

Technology upgrades involve a transformational change in how CalSTRS operates. CalSTRS' goal is to be more efficient, effective and nimble to better position the organization to adapt to a constantly changing business environment. BusinessRenew is CalSTRS' long-term plan to integrate organization-wide systems to improve business processes and mitigate risk.

BusinessRenew is composed of four major projects intended to upgrade core technologies and business processes, automate internal controls, and better integrate system information over the next several years. All projects under BusinessRenew are recognized by the Teachers' Retirement Board as a business priority. Expected outcomes include a reduction in operational risk by ensuring CalSTRS has an adequate system for administering benefits and the fiscal management system required to support business processes. This enables CalSTRS to provide accurate and timely payments to our members.

In January 2013, one of the first approved projects of BusinessRenew completed its first phase. The system now in place, BusinessDirect, improves fiscal management by automating controls within budgeting, accounting, procurement and contracting.

CalSTRS.com Redesign

In January 2013, CalSTRS launched a redesigned externally-facing website, CalSTRS.com, giving members, stakeholders, the media and other visitors a faster, simpler way to find information about CalSTRS benefits and services. The site features an innovative design with new navigational tools to help users quickly obtain pertinent information about CalSTRS member benefits, investment portfolio, media and press releases, legislation, and more.

The CalSTRS.com redesign project was a successful effort encompassing multiple business areas as well as an external vendor who completed the overall design and site hierarchy in close consultation with CalSTRS staff. Several site usability research studies enhanced online navigation. Focus group tests were conducted to ensure the most up-to-date and user-friendly tools would enable a positive experience. The end result is a streamlined, organized and robust site that delivers accurate and timely information. New navigational displays better reflect the organization's focus on investments, corporate governance, sustainability, and plan funding issues.

Recognizing the rapid growth in the use of mobile devices, CalSTRS also launched a mobile version of the new CalSTRS.com in late spring. CalSTRS.com Mobile is fully optimized for mobile devices—smartphones and tablets—with larger text, customized navigation tools, click-to-call buttons and other features that combine to create a streamlined mobile experience that is action-oriented and easy on the eyes.

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As CalSTRS celebrates its centennial anniversary, we recognize the opportunity to set a standard for the next 100 years—a standard where the quality of an investment is based not only on its present value but also on its contribution to the future. Current law guarantees that CalSTRS member benefits will be paid regardless of how the long-term funding issue is resolved. It is the overall strength and sustainability of CalSTRS that is in question and we are working tirelessly to ensure the security and financial future of our dedicated members.

Member Profile

Established 100 years ago, the California State Teachers' Retirement System, with a $166.8 billion in net assets as of June 30, 2013, is the largest educator-only pension fund in the world. It administers retirement, disability and survivor benefits for California's 868,493 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, employer and state contribution rates. CalSTRS members include employees of approximately 1,700 school districts, community college districts, county offices of education and regional occupational programs as of June 30, 2013. 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 educators do not receive Social Security benefits for their CalSTRS 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 Web-based information and more than 40 publications, we strive to be members' trusted guide to retirement.

Financial Statements

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, 2013. 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. The concept of reasonable assurance recognizes that first, the cost of a control should not exceed the benefits likely to be derived, and second, the valuation of the cost and benefits requires estimates and judgments by management. 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.

Investments Overview

The CalSTRS investment portfolio increased by $15.2 billion over the past 12 months. The CalSTRS portfolio is broadly diversified, holding investments ranging from publicly traded short-term bonds to privately held partnerships. The scale and breadth of investments make the management and oversight of these assets highly complex. In light of these factors, CalSTRS has been effective in using its resources in a cost-efficient manner to ensure that benefits continue to flow to CalSTRS participants. Over the last year, the CalSTRS investment portfolio generated a 13.8 percent one-year return calculated on a time-weighted performance basis.

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

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 contained 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, 2012. This is the 18th 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

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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

The 2013 Comprehensive Annual Financial Report demonstrates our commitment to ensure the financial security of California's educators. The accuracy of the financial data reflects CalSTRS executive leadership and is a duty performed with prudence in perpetuity. The notion that ideas of the future are structured by the day-to-day interactions teachers have with students today drives the high quality of service we provide. I would like to thank the many staff, advisors and stakeholder organizations dedicated to serving and securing the financial future of our members. CalSTRS is a unique benefits program and it is of utmost importance we continue to sustain the trust and financial integrity of our members in their retirement.

Respectfully submitted,

Jack Ehnes
Chief Executive Officer

Government Finance Officers Association

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, 2012

AWARD: PPCC AWARD

Public Pension Coordinating Council

Recognition Award for Administration 2013

Presented to

California State Teachers' Retirement System

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

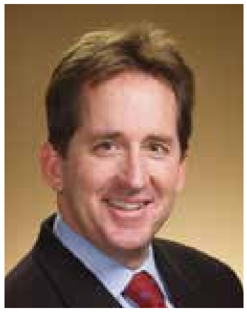
Presented by the Public Pension Coordinating Council, a confederation of

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

Alan H. Winkle
Program Administrator

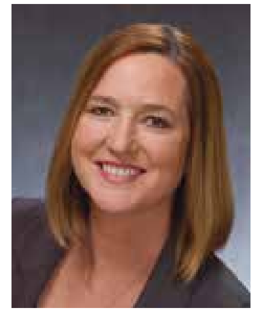
TEACHERS' RETIREMENT BOARD (AS OF JUNE 30, 2013)

DANA DILLON
Chair
K–12 Classroom Teacher
Term: 1/1/12–12/31/15

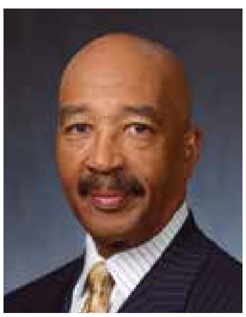


HARRY KEILEY
Vice Chair
K–12 Classroom Teacher
Term: 1/1/12–12/31/15

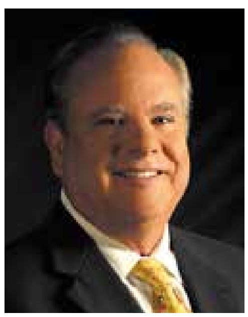
JOHN CHIANG
State Controller
Ex-Officio Member



SHARON HENDRICKS
Community College Instructor
Term: 1/1/12–12/31/15

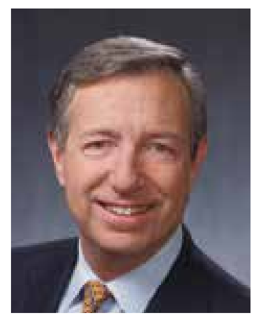


MICHAEL LAWSON
Public Representative
Term: 11/30/11–12/31/13

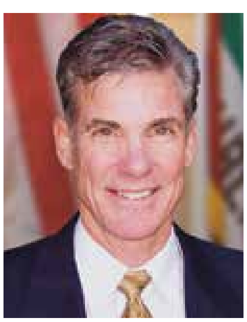


BILL LOCKYER
State Treasurer
Ex-Officio Member

ANA MATOSANTOS
Director of Finance
Ex-Officio Member



PAUL ROSENSTIEL
Public Representative
Term: 11/30/11–12/31/14



TOM TORLAKSON
State Superintendent of
Public Instruction

EXECUTIVE STAFF

Executive

JACK EHNES
Chief Executive Officer

Investments

CHRISTOPHER AILMAN
Chief Investment Officer

CASSANDRA LICHNOCK
Chief Operating Officer

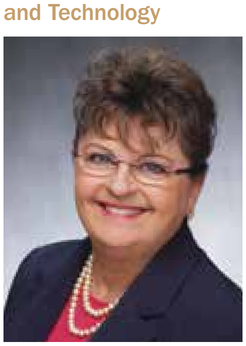
Financial Services

ROBIN MADSEN
Chief Financial Officer

General Counsel

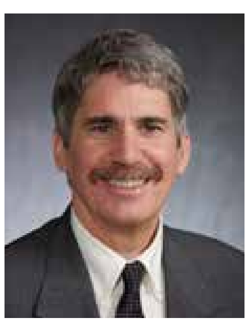
BRIAN J. BARTOW
General Counsel

Enterprise Initiatives and Technology



JANICE HANSON
Deputy Chief Executive Officer

Plan Design and Communication



ED DERMAN
Deputy Chief Executive Officer

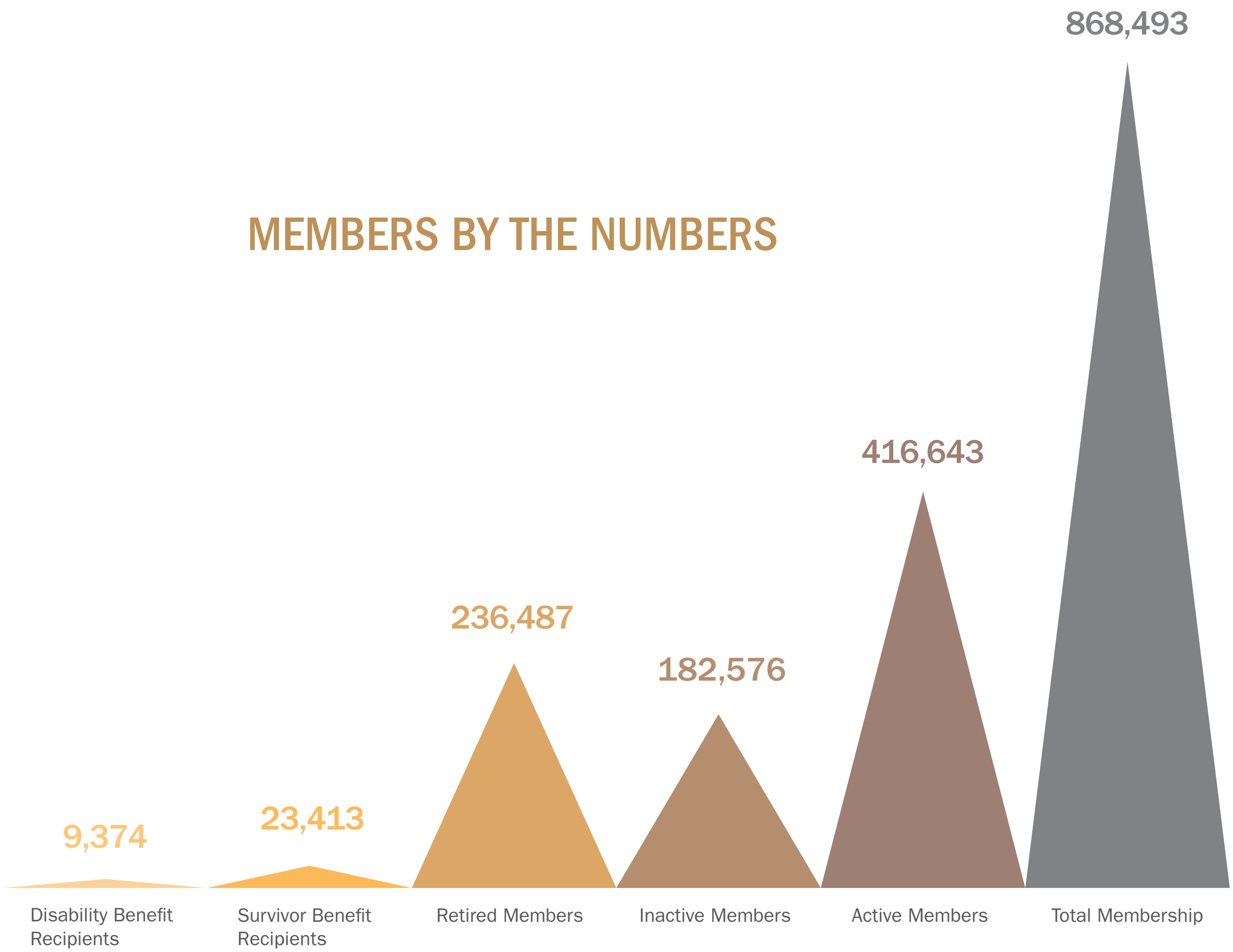
BusinessRenew

CHRIS CAIETTI
BusinessRenew Executive Officer

Benefits and Services

PEGGY PLETT
Deputy Chief Executive Officer

MEMBERS BY THE NUMBERS



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, provide vocational or guidance counseling 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 1,700 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, 2012, due to the timing of the issuance of the basic financial statements, whereas the membership data presented on this page is as of June 30, 2013. Consequently, the membership data presented here and in the financial statements do not agree.

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.

11,250	Members who retired in fiscal year 2012–13*
9 percent	Decrease from fiscal year 2011–12

*Retirement applications processed as of June 27, 2013. This number does not include service retirements processed after June 27, 2013 of members who requested retirement with effective dates backdated between January 1, 2013 and June 27, 2013.

Disability Benefits

92 percent	Applications processed within 150 days
895	Applications received
702	Approved applications
2 percent	Decrease in number of disability applications received from fiscal year 2011–12

Survivor Benefits

59 percent	Payments processed within 30 days of receiving all necessary information
7,474	Notifications of death received
2 percent	Increase in number of notifications from fiscal year 2011–12

Communicating With Our Members and Beneficiaries

Customer Service

Members may contact a CalSTRS Contact Center agent by phone, secured online message, or written correspondence.

265,766	Member inquiries answered
18 percent	Member calls answered within 30 seconds
744 seconds	Average wait time to talk with Contact Center agent
23 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.

- 69 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

CalSTRS reaches out to members and beneficiaries through the *CalSTRS Connections: Reaching Your Retirement*, *CalSTRS Connections: Your Money Matters*, and *Retired Educator* newsletters.

CalSTRS Connections: Reaching Your Retirement is mailed to active and inactive members age 50 and older in the spring and fall. It provides information about retirement planning and decisions, workshops and benefits counseling, legislative news and more.

CalSTRS Connections: Your Money Matters is mailed to active and inactive members age 49 and younger in the spring and fall. It provides updates on CalSTRS programs and services, articles on retirement and financial planning, legislative news and more.

Retired Educator is mailed to retired members and beneficiaries in the summer and winter. It provides information on benefits and services, legislation, investments and board updates.

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 September in the member's *my*CalSTRS account and usually mailed in November, 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 handbook is updated annually.

The *Your Retirement Guide* booklet provides the information members need to plan, research and make retirement decisions regarding a member's Defined Benefit pension and a member's Defined Benefit Supplement funds. It includes step-by-step instructions for applying for the service retirement and what to expect after submitting the retirement application.

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—newly vested, mid-career and near retirement—are based on the member's age and length of service.

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

- *Cash Balance Benefit Program: A Retirement Plan for Part-Time and Adjunct Educators*
- *Community Property Guide*
- *Introduction to Disability Benefits*
- *Your Disability Benefits Guide*
- *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*
- *Welcome to CalSTRS*

CalSTRS Online

CalSTRS has four websites: CalSTRS.com, *my*CalSTRS, CalSTRS.com/funding and 403bCompare.com.

CalSTRS.com is the main site for members, board members, employers and other business partners. Features include online calculators to estimate retirement benefits and the cost to purchase service credit or redeposit funds; CalSTRS publications and forms; and self-scheduling for workshops and group counseling sessions.

*my*CalSTRS, CalSTRS' **self-service** site for members, provides secure and convenient access to members' personal accounts. After registering for *my*CalSTRS, members can view their account balances, complete and submit forms online, keep their address current, view their *Retirement Progress Reports*, and ask questions and receive prompt answers.

CalSTRS.com/funding is a resource for CalSTRS pension news and information. It features interactive tools and multimedia segments, and an Ask Jack column.

At 403bCompare.com, members can compare fees charged by different mutual funds and insurance products.

Members can also stay connected to CalSTRS through its social media presence on Facebook, Twitter, Google+, LinkedIn, YouTube and Pinterest.

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 has three member service centers: West Sacramento (Headquarters); Glendale, opened in January 2012; and Santa Clara, which opened in June 2013. Member service center staff offer direct counseling and assistance to active and retired members, and provide benefits counseling and workshops in the greater

Sacramento, Los Angeles County and Bay Area regions. Offices are open Monday through Friday, 8 a.m. to 5 p.m. and Saturdays by appointment.

One of the unique aspects of the centers is the ability for members to come in by appointment or on a walk-in basis to seek assistance with general information questions, have a CalSTRS representative review forms, or to drop off forms that need to be transmitted to headquarters. Since opening, the Glendale and Santa Clara centers have exceeded our expectations by assisting 2,665 members on a walk-in basis.

Member service centers are augmented by 14 CalSTRS local benefits counseling offices located across the state in county offices of education. These offices provide workshops, group and individual counseling sessions, and accept forms.

This year, 39,081 members attended a group or individual benefit counseling session or workshop. Additionally, 10,374 members took advantage of the opportunity to walk-in and receive immediate assistance.

Another convenient service for members is the estimate service, which last year provided 1,296 members with an updated retirement benefit estimate without requiring a second appointment. We continue to focus our efforts on providing services that increase accessibility for members, reflect individual member needs and increase member self-education.

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 supports the employer reporting process through education, collaboration and continuous improvement. CalSTRS has enhanced the delivery of information by making it available electronically and on demand for the employer. The Secure Employer Website, SEW, a secure solution for employers to submit their monthly reporting data, includes checks and balances to ensure the data is accurate and verified.

CalSTRS is committed to preventing pension abuse by automating the review of compensation credited to retirement benefits. CalSTRS Compensation Review Unit has increased reviews of potential abuse cases through the introduction of the Pension Abuse Reporting Hotline and online submission form.

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.

FINANCIAL

INDEPENDENT AUDITOR'S REPORT

Crowe Horwath.

Crowe Horwath LLP
Independent Member Crowe Horwath International

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of California State Teachers' Retirement System (the System), a component unit of the State of California, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the System's preparation and fair presentation of the financial statements in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of California State Teachers' Retirement System as of June 30, 2013, and the respective changes in fiduciary net position for the year then ended in conformity with the accounting principles generally accepted in the United States of America.

Emphasis of Matters

Actuarial Accrued Obligation

As described in Note 3, based on the most recent actuarial valuation as of June 30, 2012, the System's independent actuaries determined that, at June 30, 2012, the value of the Defined Benefit Program's actuarial accrued obligation exceeded the actuarial value of its assets by $70.5 billion. The most recent actuarial value of assets as of June 30, 2012 does not include either deferred investment losses or gains that will be recognized in the future. Our opinion is not modified with respect to this matter.

Fair Value of Investments

The financial statements include investment securities valued at approximately $46.1 billion as of June 30, 2013, for which fair value has been estimated by general partners and investment advisors, and reviewed and approved by System 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. Our opinion is not modified with respect to this matter.

Other Matters

Prior-Year Comparative Information

The financial statements include summarized prior-year comparative information. Such information does not include all of the information required or sufficient detail 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 as of and for the year ended June 30, 2012, that we previously audited and expressed an unmodified opinion on those financial statements in our report dated October 5, 2012, from which such summarized information was derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 28-44 and the Schedule of Funding Progress and Schedule of Contributions from Employers and Other Contributing Entities on pages 78-82 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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INDEPENDENT AUDITOR'S REPORT

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements. The Introduction section, Schedule of Administrative Expenses, Schedule of Investment Expenses, Schedule of Consultant and Professional Services Expenses, 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 Schedule of Administrative Expenses, Schedule of Investment Expenses and Schedule of Consultant and Professional Services Expenses are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Administrative Expenses, Schedule of Investment Expenses and Schedule of Consultant and Professional Services Expenses are fairly stated, in all material respects, in relation to the basic financial statements 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 do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2013 on our consideration of 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* in considering California State Teachers' Retirement System's internal control over financial reporting and compliance.

Crowe Horwath LLP

Crowe Horwath LLP

October 15, 2013
Sacramento, California

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California State Teachers' Retirement System
Management's Discussion and Analysis (Unaudited)
June 30, 2013

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, 2013. This discussion and analysis focuses on the year's activities, resulting changes, and currently known facts. This discussion is more meaningful when read in conjunction with the CalSTRS financial statements and accompanying notes to the financial statements.

In addition to historical information, this discussion and analysis includes some forward-looking statements that involve uncertainties and risks. The 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, regulations, 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)

The Teachers' Retirement Board (board) has exclusive control over the administration of the retirement system plans and the investment of funds. The board makes rules, sets policies, and has the power and authority to hear and determine all facts pertaining to application for benefits under the retirement system. It is comprised of 12 members:

- Five members appointed by the Governor: one member currently serving on a school board, one retired CalSTRS member, and three public members;
- Four ex-officio members: the Superintendent of Public Instruction, the State Treasurer, the State Controller, and the Director of Finance;
- Three members elected by CalSTRS membership

At the end of calendar year 2011 and early in calendar year 2012, three Governor-appointed members left the board and those seats remained open at June 30, 2013.

In its 5-year strategic plan for fiscal year 2012-13 through 2016-17, the board set goals of ensuring the long-term viability of the Defined Benefit (DB) Program, managing risk to the organization, enhancing services to members, and continuing workforce and process improvements as primary focus areas for the organization. The viability of the DB Program is a top priority for the board as CalSTRS projects a significant funding shortfall, or unfunded actuarial obligation, for the DB Program.

The projected DB Program 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 2043.

Under California State law, the DB Program receives contributions from members and employers set as a percentage of members' earnings, in addition to contributions from the state's General Fund and other sources. CalSTRS investment earnings finance the cost of administering the plan and offset the

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amount of contributions required to fund benefits. Unlike most other pension plans in California, the Teachers' Retirement Board does not have the authority to raise contribution rates. Because contribution rates are set in statute, the authority to adjust them rests with the Legislature and the Governor.

Historically, investment returns contribute almost 60 percent of the retirement benefit. CalSTRS uses a time-weighted return methodology to calculate returns for performance purposes. CalSTRS earned an approximate 13.8 percent one-year return on a performance basis in fiscal year 2012-13, above the actuarial assumed rate of 7.5 percent. According to the June 30, 2012, actuarial valuation for the DB Program, the gap between the value of assets and the value of its obligations, or funding gap, has grown to approximately $70.5 billion from $63.8 billion as reported in the June 30, 2011 actuarial valuation. CalSTRS estimates it cannot invest its way out of its projected funding shortfall. What is needed is an increase in contribution rates.

During fiscal 2012-2013, CalSTRS maintained its Standard and Poor's long-term rating of AA- and short-term rating of A-1+ with a stable outlook. Although the State of California received an increase in its long-term rating, CalSTRS rating did not receive an equal upgrade primarily due to the low funded ratio of its major plan.

The definitive approach to address the long-term funding needs of the DB Program is to fully fund the program over a period of 30 years or less. However, CalSTRS recognizes the Legislature and Governor may opt for a different approach in order to mitigate other budgetary concerns.

On August 31, 2012, the State Legislature passed Resolution Chapter 123, Statues of 2012, Senate Concurrent Resolution 105 (Negrete McLeod). Through the resolution, the Legislature declares its intent to enact legislation to address the long-term funding needs of the DB Program in the 2013-14 Regular Session. CalSTRS submitted its report of possible funding strategies, Sustaining Retirement Security for Future Generations: Funding the California State Teachers' Retirement System*,* to the Legislature as requested by the resolution on February 14, 2013.

The report, developed with input from affected stakeholders, provides the Legislature with a range of funding strategies necessary to secure the long-term funding needs of the DB Program. The report's funding options consider the implications of contribution increases needed to close the $70.5 billion funding gap. As stated in the report, if CalSTRS does run out of money, the state, as the plan sponsor, will be obligated to pay the difference between the benefits paid and the contributions received.

The most significant means to improve the funding of the DB Program is to increase contributions, which for CalSTRS, only the Legislature and Governor have the authority to do. Organizations representing CalSTRS members have expressed a willingness to increase the contribution rate imposed on all affected parties, including members. Although increases in contributions can be deferred and gradually implemented, the sooner these increases become effective, the less costly it ultimately will be to those who pay the higher contributions. Additionally, the CalSTRS report recommends the Legislature establish a mechanism to re-evaluate the need for additional adjustments to maintain appropriate program funding in any potential legislation.

On September 12, 2012, Governor Brown signed the California Public Employees' Pension Reform Act of 2013 (PEPRA), resulting in extensive revisions to California public pension plans. The change with the most significant impact on CalSTRS members is the reduction in the age factor for members under the CalSTRS 2% at 62 benefit formula. Members under this benefit formula are required to work longer or receive a reduced service retirement benefit.

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The legislation, effective January 1, 2013, includes the following provisions:

- Requires that members first hired on or after January 1, 2013 be subject to PEPRA; these members fall under the new 2% at 62 benefit formula
- Requires 2% at 62 members to contribute 50 percent of the normal, ongoing cost of benefits
- Places a cap on the compensation used to calculate contributions and benefits for 2% at 62 members equal to 120 percent of the 2013 Social Security wage base, adjusted each year based on changes to the Consumer Price Index
- Increases the normal retirement age for 2% at 62 members from 60 to 62 with a 2 percent age factor
- Extends the final compensation period to three years for all 2% at 62 members, regardless of years of service
- Limits benefits for 2% at 62 members to the federal limit in Internal Revenue Code section 415 ($175,432 at age 65 in 2013)
- Excludes allowances, bonuses, cash in-lieu of fringe benefits, limited-period compensation and compensation determined to have been paid for the purposes of enhancing a benefit from the calculation of contributions and benefits for 2% at 62 members
- Extends the zero-dollar earnings limit for first 180 calendar days following retirement to all members who retire on or after January 1, 2013, regardless of age
- Prohibits retroactive benefit increases and the purchase of nonqualified service for all members

Although the changes enacted in PEPRA will reduce the liabilities accrued as a result of service of 2% at 62 members, those benefit changes are nowhere near sufficient to fully offset the funding shortfall. Any additional reductions to the benefits paid to members would have limited impact on program funding because the reductions could only apply to future members.

Public pension funds are subject to abuse from the manipulation of retirement benefits through spiking, where compensation is inflated in the years used to calculate final compensation, generally the period immediately preceding retirement, in order to receive a larger pension. In September 2011, based upon recommendations from an internal anti-spiking task force, the board approved the establishment of the Compensation Review Unit (CRU) to identify and resolve potential benefit spiking to ensure benefits are paid consistently with the law. For fiscal year 2012-13, the CRU completed 82 cases and identified 31 individual overpayments totaling $1,600,000.

In addition to establishing the CRU, CalSTRS regularly conducts school district audits and analyzes employer compensation reports to identify increases that could enhance a member's final pension benefit. For fiscal year 2012-13, CalSTRS identified approximately $2.4 million in benefit overpayments based upon 15 employer audits. With the establishment of PEPRA, a limit on compensation which is counted towards calculating a member's pension will further enhance CalSTRS safeguards against pension spiking. CalSTRS maintains a toll-free hotline and an online form on its website to report pension abuse and continues to work with the Governor, Legislature and stakeholders to expand remedies to inappropriate benefit enhancement.

In June 2012, the Governmental Accounting Standards Board (GASB) released two accounting standards that amend existing pension accounting standards for plans and employers. The GASB's intentions with these new standards are to improve the transparency, consistency, and comparability of the pension information reported by state and local governments and pension plans. Statement 67 focuses on plan financial reporting and is effective for periods beginning after June 15, 2013 (next fiscal

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year for CalSTRS). Statement 68 focuses on financial reporting of pension plans by employers and is effective for periods beginning after June 15, 2014 (fiscal year 2014-15 for employers).

Both of these statements represent significant changes for the affected entities but for different reasons. Statement 67 changes CalSTRS financial statements by requiring additional note disclosures, additional actuarial calculations and new schedules. Statement 68 will change the face of employers' and non-employer contributing entities' financial statements by adding a new pension obligation called the Net Pension Liability (NPL) to their balance sheets. This new obligation could dwarf all other liabilities on these entities' financial statements. (Statement 68 will also have an impact on CalSTRS' financial statements as CalSTRS must reflect its proportionate share of any net pension liability under the State's defined benefit plan.)

Some of the key changes resulting from the new GASB standards include:

- Calculation of the NPL will be made using a "blended rate" to discount liabilities as dictated by the new standards.
- Money-weighted rate of return information on pension plan investments will be presented in the notes to the financial statements and required supplementary information.
- Several 10-year schedules present information regarding contributions made to the plan and the proportionate share of the NPL.
- A proportionate share of the NPL may be added to employers' balance sheets.
- Employers will need to recognize pension expense based on new criteria proscribed by GASB.
- Deferred inflows and outflows of resources representing changes in the plan status and position from year to year are added to financial statements.

CalSTRS continues to engage with GASB on implementation issues surrounding the new standards. In addition, outreach efforts with employers continue. Internally, CalSTRS has developed a conceptual framework for two additional schedules within the CalSTRS Comprehensive Annual Financial Report (CAFR) to: 1) identify the portion of annual contributions attributable to each CalSTRS employer and non-employer contributing entity and, 2) provide the total net pension liability (NPL) and changes in the NPL year over year. CalSTRS will pay particular attention on how to present the CAFR and basic financial statement information so that readers will understand the difference between net pension liability, pension expense, and investment performance as calculated for financial reporting purposes and similar calculations needed for funding adequacy assessment and investment management.

See the paragraphs on GASB Statements No. 67 and 68 in Note 7 for additional information on the new GASB standards.

CalSTRS has embarked on the long-term, multi-year BusinessRenew Program which is undertaking the transformation of business processes and systems to enable CalSTRS to meet the objectives outlined in its strategic plans. BusinessRenew is a collection of work efforts to provide integrated business processes and systems across CalSTRS. BusinessRenew work efforts will be implemented over several years in a phased approach. One of the objectives of the project is to enhance CalSTRS internal controls through ongoing technology initiatives.

In the first major release under the BusinessRenew Program, many manual fiscal and administrative processes were automated through the implementation of BusinessDirect, an integrated financial system using SAP Enterprise Resource Planning software. BusinessDirect was implemented in late January 2013 with an accounting effective date of January 1, 2013. The new financial system core functionality includes accounting, financial reporting, budget management, procurement and contracts.

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The completion of this initial release is a milestone for CalSTRS. CalSTRS now turns its focus on the next major BusinessRenew Program work effort, the Pension Solution. This effort includes the replacement of CalSTRS legacy pension administration system, START. The new system will be designed to strengthen pension system internal controls, expand system functionality, enhance member and employer self-service, and maximize CalSTRS investment in the maintenance and support of its core business system. In order to mitigate and avoid the risks associated with a large, multi-year, complex, and costly pension system replacement, thorough planning is critical. In another BusinessRenew Program effort, the Data Preparation Project team is focused on the analysis of existing CalSTRS member and other entity data. The results of this effort will enable CalSTRS to make decisions on the resolution of data issues prior to data conversion to the new pension administration system. The Data Preparation effort is scheduled for completion in 2014.

FINANCIAL HIGHLIGHTS

- Total net position for the STRP increased by $15.0 billion or 9.9 percent to $166.3 billion as a result of strong investment performance.
- Total member contributions for the STRP increased by $56.8 million or 2.5 percent to $2.3 billion, mainly due to an increase in the purchase of nonqualified service by members in the second half of 2012. Nonqualified service purchases are prohibited after December 31, 2012, under PEPRA.
- Total employer contributions for the STRP increased by $45.3 million or 2.0 percent to $2.3 billion. Corrections to employer contributions for Los Angeles Unified School District resulted in a one-time decrease in contributions in fiscal year 2011-12. There was no such adjustment in the current fiscal year, so employer contributions in fiscal year 2012-13 comparatively increased.
- Total state contributions for the STRP increased by $25.7 million or 2.0 percent to $1.3 billion as a result of additional state contributions due to the unfunded obligation of the defined benefit program based on benefits in effect as of July 1, 1990.
- Net investment income for the STRP increased by $19.6 billion or 1,830.6 percent to $20.7 billion due mainly to strong investment returns.
- Benefit payments for the STRP increased by $677.6 million or 6.3 percent to $11.4 billion, reflecting an increase in the number of retirees and beneficiaries and an annual cost of living adjustment.
- In the most recent actuarial valuation as of June 30, 2012, the CalSTRS DB Program was estimated to be funded at 67 percent compared to an estimated funding level of 69 percent as of June 30, 2011 (see Note 3 and Required Supplementary Information for additional information). The recognition of asset losses for the current and prior years, as well as insufficient funding, had the most significant effect on the funded ratio.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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The Statement of Fiduciary Net Position. The Statement of Fiduciary Net Position, formerly the Statement of Fiduciary Net Assets, presents information on all of CalSTRS assets and liabilities, with the difference between the two reported as net position. The title of the statement was changed because of the requirements of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* Over time, the increase or decrease in net position serves as an indicator of the health of CalSTRS financial position and its ability to fund future benefit payments.

The Statement of Changes in Fiduciary Net Position. The Statement of Changes in Fiduciary Net Position, formerly the Statement of Changes in Fiduciary Net Assets, shows how CalSTRS net position changed during the fiscal year, reflecting contributions earned, benefit payments made, investment returns, and the costs of administering CalSTRS. The title of the statement was changed because of the requirements of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.*

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 is 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.
- 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 CalSTRS significant commitments.
- Note 7 provides a summary of new accounting and financial reporting pronouncements.

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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

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 Benefits Program (See Note 1 for further explanation).

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The information that follows presents comparative information and changes to plan net position for fiscal years 2012-13 and 2011-12.

NET POSITION
(Dollars in Thousands)

ASSETS	2013	2012	Percent Change
Investments [1]	$ 188,902,167	$ 174,341,552	8.4%
Cash and Cash Equivalents	1,827,146	1,633,159	11.9%
Investment Receivables	2,626,027	1,009,980	160.0%
Member, Employer and Other Receivables	656,580	686,505	(4.4%)
Capital Assets	237,901	244,507	(2.7%)
TOTAL ASSETS	194,249,821	177,915,703	9.2%
LIABILITIES			
Benefits in Process of Payment	1,044,692	78,049	1,238.5%
Investment Payables	2,568,142	1,559,022	64.7%
Loan payable	937,494	1,011,158	(7.3%)
Other	104,131	214,808	(51.5%)
Securities Lending Obligation	23,246,453	23,734,609	(2.1%)
TOTAL LIABILITIES	27,900,912	26,597,646	4.9%
NET POSITION	$ 166,348,909	$ 151,318,057	9.9%

[1] Includes securities lending collateral.

STRP net position increased by $15.0 billion or 9.9 percent, from $151.3 billion in fiscal year 2011-12 to $166.3 billion in fiscal year 2012-13. This increase is attributable mainly to strong investment performance.

Investments, excluding securities lending collateral, increased by $15.0 billion or 10.0 percent to $165.7 billion as of June 30, 2013. At June 30, 2013, the STRP held $86.9 billion in global equity securities, an increase of $13.5 billion or 18.4 percent from June 30, 2012. At June 30, 2013, the STRP also held $28.9 billion in debt securities, an increase of $195.5 million or 0.7 percent from the prior year. Remaining holdings in short-term, private equity, real estate, inflation sensitive and overlay investments totaled $49.9 billion at June 30, 2013, an increase of $1.4 billion or 2.8 percent from the balance as of June 30, 2012. Net appreciation on investments was $16.2 billion in fiscal year 2012-13, compared to a net depreciation of $2.6 billion in fiscal year 2011-12, resulting in an overall increase of $18.8 billion.

Cash and Cash Equivalents increased by $194.0 million or 11.9 percent in fiscal year 2012-13 compared to the prior fiscal year. The increased cash equivalents balance was due primarily to an increase in short-term investments close to maturity.

Investment Receivables increased by 160.0 percent from $1.0 billion to $2.6 billion as of June 30, 2013. Investment Payables also increased by 64.7 percent from $1.6 billion to $2.6 billion as of June 30, 2013. These balances can fluctuate based on the open trades and dates of settlement.

Benefits in the process of payment increased $966.6 million or 1,238.5 percent. This balance can change significantly depending on when benefit payments are processed at the end of the fiscal year. Other liabilities decreased by $110.7 million or 51.5 percent between fiscal years. The fiscal year 2011-12 balance was comparatively higher mainly because of a liability at the end of the year for federal and state tax-withholding payments. No such liability existed at the end of fiscal year 2012-13.

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Securities lending cash collateral and obligations decreased during fiscal year 2012-13 by $473.7 million and $488.2 million, 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. Net income generated by the Securities Lending Program for fiscal year 2012-13 was $100.3 million, compared to $124.0 million in fiscal year 2011-12.

CHANGES IN NET POSITION
(Dollars in Thousands)

ADDITIONS	2013	2012	Percent Change
Member	$ 2,336,731	$ 2,279,900	2.5%
Employer	2,283,263	2,237,983	2.0%
State	1,328,298	1,302,581	2.0%
Investment income	20,682,438	1,071,320	1,830.6%
Other	1,241	4,115	(69.8%)
TOTAL ADDITIONS	26,631,971	6,895,899	286.2%
DEDUCTIONS			
Benefit Payments	11,354,733	10,673,837	6.4%
Refund of Contributions	104,994	108,111	(2.9%)
Administrative Expenses	136,944	138,411	(1.1%)
Other	4,448	3,298	34.9%
TOTAL DEDUCTIONS	11,601,119	10,923,657	6.2%
NET POSITION INCREASE (DECREASE)	15,030,852	(4,027,758)	473.2%
BEGINNING NET POSITION	151,318,057	155,345,815	(2.6%)
ENDING NET POSITION	$ 166,348,909	$ 151,318,057	9.9%

Additions to Plan Net Position
The STRP benefits are funded from employer, member and state 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 board, have the authority to change employer and member contribution rates. As per statute, CalSTRS received 0.774 percent more in state contributions as a percentage of creditable earnings for most of fiscal year 2012-13 due to the unfunded liability status of the DB Program based on benefits in place as of July 1, 1990.

The STRP net investment income increased 1,830.6 percent to $20.7 billion in fiscal year 2012-13 as compared to net income of $1.1 billion in fiscal year 2011-12. This increase is primarily attributable to the strong investment performance, which is discussed further in the 'Performance Vs. Benchmarks' section.

Deductions from Plan Net Position
Benefit payments totaled $11.4 billion in fiscal year 2012-13. The $680.9 million or 6.4 percent increase in benefit payments over the prior year is primarily the result of an increase in retirees receiving benefit payments and an annual cost of living adjustment. The average monthly benefit paid is $3,517 for fiscal year 2011-12 (the most recent available), which is a 2.9 percent increase from the $3,417 average monthly benefit calculated for fiscal year 2010-11. This benefit payment is typically the single retirement benefit CalSTRS members receive as they do not participate in Social Security.

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Refund of Contributions decreased by 2.9 percent from $108.1 million to $105.0 million for fiscal year 2012-13. Refund requests and amounts fluctuate year to year due to changing demographic trends (i.e., mortality rates) and economic conditions (i.e., employment rates).

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 position increased by $77.4 million or 21.5 percent as combined contributions and net investment income of $104.4 million exceeded distributions and administrative expenses of $27.0 million. Contributions decreased by less than 1.0 percent from fiscal year 2011-12, while net investment income increased $37.9 million or 596.5 percent.

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 DB 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 contributions increased by $0.4 million to $35.0 million during fiscal year 2012-13. The THBF paid benefits of $34.7 million in the fiscal year, an increase from the $34.4 million in benefits paid in the prior year. 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 0.1 percent as of June 30, 2012. (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 members and their beneficiaries. The TDCF received fee revenues and interest of $566,000, a decrease of $204,000 or 26.5 percent from the prior year. The decrease is primarily due to a decrease in the maintenance fees charged to vendors through the 403(b) Compare 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 7.5 percent. 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. The investment return assumptions are developed by CalSTRS investment and actuarial consultants and are adopted by the board.

The actuarial assumptions and methods used in the June 30, 2012, valuation were based on the 2010 Actuarial Experience Analysis adopted by the board in February 2012.

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The table below presents information to highlight the importance of the investment rate of return, which is used to discount the actuarial liabilities of CalSTRS, and how fluctuations in the investment rate of return and discount rate would change the Funded Ratio, Unfunded Actuarial Accrued Liability (UAAL) at both the actuarial and market value of assets and the Projected 30-Year Level Funding Rate [Annual Required Contribution (ARC)] under various investment rate of return assumptions.

Defined Benefit Program
(Dollars in Millions)

Investment Return Assumption	Actuarial Value of Assets			Market Value of Assets
	Funded Ratio	UAAL	ARC	UAAL
5.00%	48%	$ 156,065	58.342%	$ 165,462
6.00%	55%	$ 116,433	46.831%	$ 125,830
7.00%	63%	$ 84,449	37.224%	$ 93,846
7.50%	67%	$ 70,533	32.870%	$ 79,930
7.75%	69%	$ 64,080	30.815%	$ 73,477
8.00%	71%	$ 57,986	28.855%	$ 67,383
9.00%	79%	$ 37,013	21.999%	$ 46,410

Based on the June 30, 2012 Actuarial Valuation.

The information presented in the ARC column represents the total contributions needed from employers, members and the state as a percentage of covered payrolls, 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 gains and losses that occurred during fiscal years 2009-10, 2010-11, and 2011-12 were immediately recognized.

The most recent actuarial valuation indicates that the DB Program is underfunded, with 67 percent of the funds needed to pay the actuarial cost of the benefits accrued as of June 30, 2012. This is a decrease of 2 percent from the 69 percent estimated funded ratio as of June 30, 2011.

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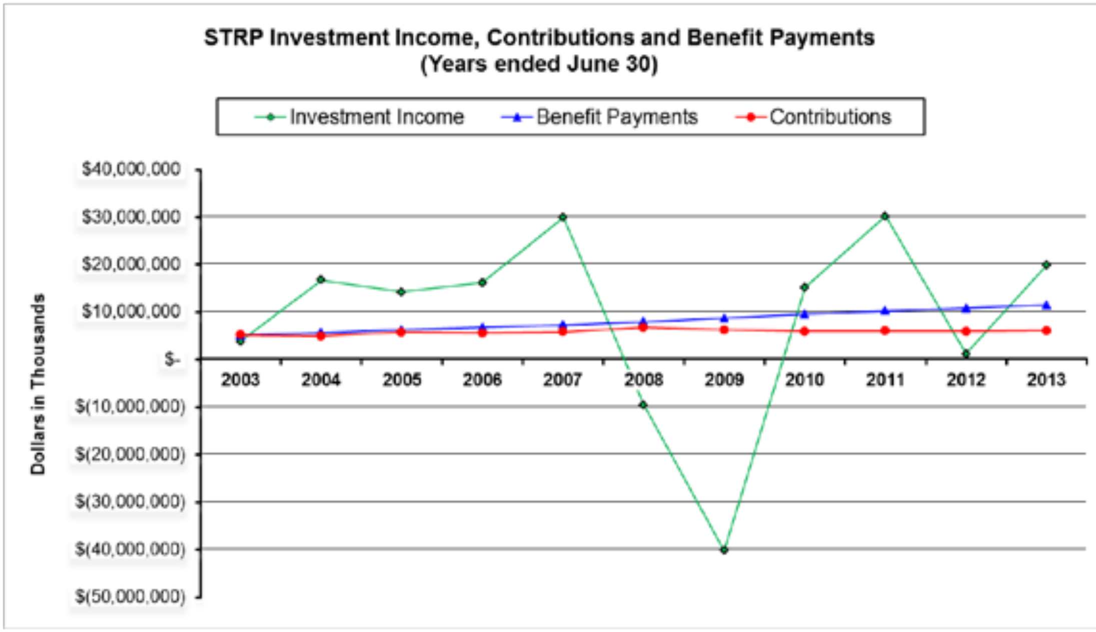
The following chart is a 10-year historical comparison of investment income (including unrealized gains and losses), employer contributions and benefit payments.



The graph shows there is a growing gap between contributions and benefit payments, a sign of a mature pension system. In the long run, investment returns alone will not be able to bridge this gap. CalSTRS will need a significant increase in contribution revenue to make progress toward the funding target. There are sufficient assets to make benefit payments for at least 30 years, after which benefits will have to be paid on a "pay as-you-go basis". Deferring contribution increases and providing for an increase in rates over time is possible; the cost of waiting increases the total long-term costs of the plan.

INVESTMENTS

CalSTRS primary goal is to maintain a financially sound retirement system. 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 seven asset classes and the board sets the asset allocation targets. The fiscal year 2012-13 goals and targets for the investments were to:

1. Achieve an absolute return of 7.5 percent and/or outperform the benchmark.
2. Outperform the Total Fund Policy Benchmark and add an additional 60 basis points of extra return without excess risk.
3. Aspire to be cost effective with tight operational internal controls.

The CalSTRS Investment Portfolio posted an approximate 13.8 percent one-year return calculated on a time-weighted performance basis for fiscal year 2012-13. The performance based one-year return of the portfolios differ from financial statement results primarily due to the quarter lag in the annual performance data for private assets in the time-weighted performance calculation; for June 30, 2013 financial statements, the values and returns for the private equity and real estate asset classes reflect the performance results as of June 30, 2013. The one-year return was above the actuarial assumed rate of 7.5 percent and the average annual return for the last three years is 12.6 percent. Furthermore,

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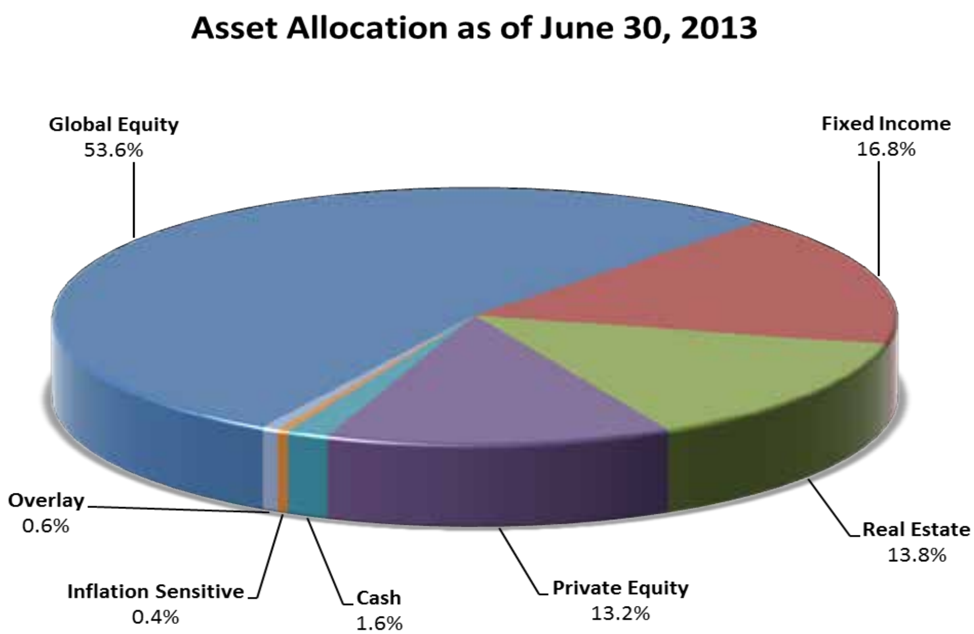
CalSTRS has generated a 7.4 percent and 8.5 percent return over the last 20 and 25 years, respectively.

ASSET ALLOCATION

The following chart provides the distribution of total fund investments as of June 30, 2013.[1]



Representing over 53 percent 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 allocation targets of 67 percent and 33 percent to U.S. securities and Non-U.S. securities, respectively. Approximately 66 percent of the Global Equity assets are managed externally, while the remaining 34 percent is passively managed by CalSTRS 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. Fixed Income assets are primarily managed internally with approximately 83 percent of the portfolio using an enhanced indexing strategy, while 17 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. Types of investment strategies include leveraged buyouts, venture capital, expansion capital, distressed debt and mezzanine investments. Private Equity has substantial fees and costs associated with each

[1] Asset allocation presented is based on portfolio management approach.

investment; consequently, emphasis is placed on negotiating, monitoring and controlling the direct and indirect costs of each limited partnership investment.

The Real Estate Portfolio is comprised of investments in wholly-owned properties, joint venture investments, and commingled funds. Approximately 15 percent of the investment portfolio represents non-U.S. assets. Leverage has been reduced to the new levels set by the board. The core portfolio has increased from a low of 25 percent in prior years to 37 percent as of June 30, 2012. To more closely align the interests of CalSTRS and the real estate managers, emphasis is placed on negotiating, monitoring, and managing the direct costs associated with each real estate investment.

Asset / Liability Study

CalSTRS conducts a full asset / liability (A/L) study once every three years or more frequently if there is a significant change in the assets or liabilities. The key goal is to develop an asset allocation policy that maximizes the likelihood that an investment portfolio's assets will, over the planning horizon, fund plan benefits. The 2012-13 study occurred over several Investment Committee meetings and concluded at the September 2013 meeting, with the adoption of strategic asset class targets into the Investment Policy and Management Plan (IPMP).

The initial review began at the September 2012 Investment Committee meeting with a discussion on the overall return objectives, investment objectives and investment philosophy and then built on that discussion by looking at the breakdown of risk exposures imbedded within various asset classes and how they perform in various economic contexts. Near the conclusion of the 2012-13 asset / liability study, discussions continued around key decision factors that will drive an optimum asset allocation based on the risk category of investments.

At the July 2013 Investment Committee meeting, there was a consensus view on the weightings of the key decision factors used to establish and reflect the Investment Committee's risk tolerance. In September 2013, the staff and Pension Consulting Alliance (PCA), the Teachers' Retirement Board's general consultant, presented the recommended portfolio mix to achieve the factor weightings to the Investment Committee. They also presented a multi-step implementation plan for the new CalSTRS asset allocation targets. The revised IPMP reflected the new long-term asset targets and set the overall risk limit or acceptable risk parameters for the multi-billion dollar investment portfolio. Detailed information regarding the Asset/Liability study can be found on the meeting agendas of the Teachers' Retirement Board.

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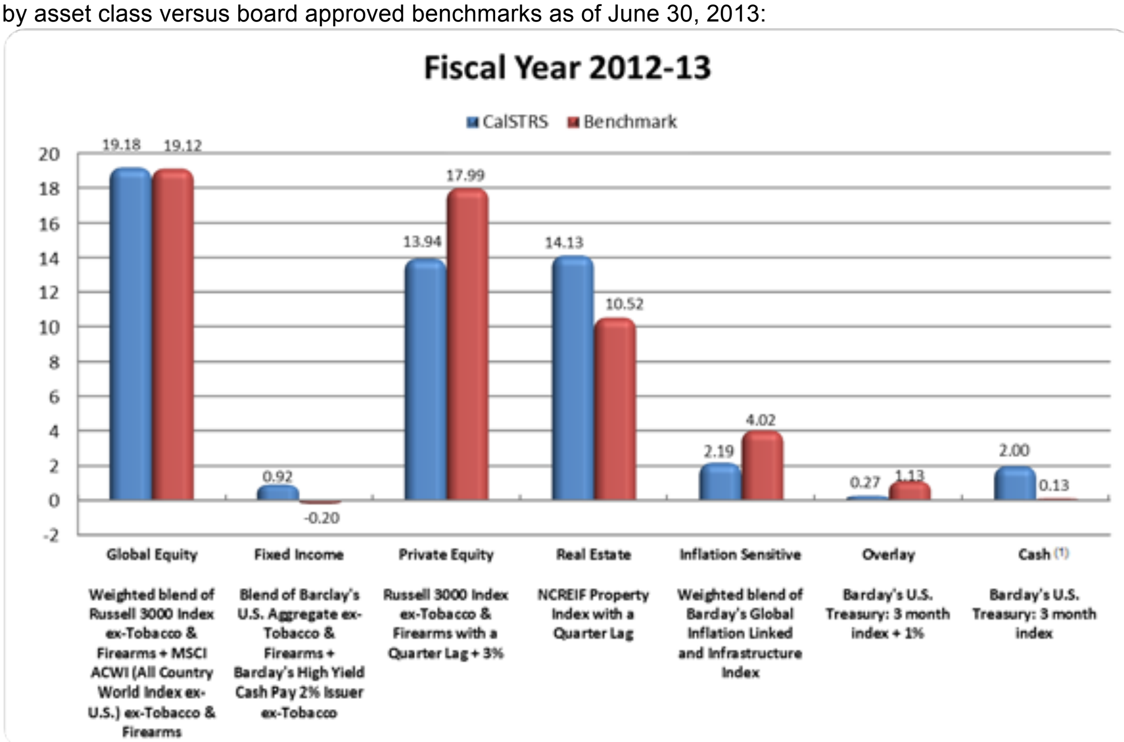
PERFORMANCE VS. BENCHMARKS

The following is a comparison of the CalSTRS returns calculated on a time-weighted performance basis by asset class versus board approved benchmarks as of June 30, 2013:



[1] The Cash portfolio includes short term investments as well as income from the Securities Lending Program, the Credit Enhancement Program, securities litigation and other sources.

During fiscal year 2012-2013, global equity markets generated robust gains with the MSCI All Country World Index returning over 16 percent. During the first half of the fiscal year, global equity markets made modest gains, ending broadly up despite spells of volatility. While the overall return for the global equity markets was impressive, investors witnessed a sharp divergence in the performance of developed and emerging equity markets. There was nearly a 16 percent difference between the two markets as the MSCI World Index returned over 18 percent, while the MSCI Emerging Markets Index returned slightly below three percent for the period. Despite combatting a host of issues, including a political stalemate in the U.S. and a deepening recession in Europe, developed equity markets were buoyed by positive steps taken by central banks around the world. In the U.S., the Federal Reserve implemented a massive new monetary stimulus measure, dubbed ‘quantitative easing three’ (QE3). In Japan, Shinzo Abe, who advocated for more aggressive monetary policies from the Bank of Japan, was elected as Prime Minister, while the European Central Bank President, Mario Draghi, stated the bank would do “whatever it takes” to preserve the Euro. These actions sent equity markets soaring. Initially, emerging equity markets were the beneficiary of the ample supply of liquidity. Although, a host of investor concerns, ranging from worries of slowing growth in China and Brazil to potential instability in India, Turkey, and South Africa, weighed down the emerging markets, aggressive monetary policies and positive economic indicators renewed investor confidence resulting in robust overall returns for fiscal year 2012-2013.

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A low interest rate environment and an increased risk of rising interest rates led fixed income securities to post flat to negative market returns for the fiscal year. Despite the sell-off of fixed income securities, CalSTRS Fixed Income portfolio posted a positive return for fiscal year 2012-2013. During the first quarter of the fiscal year, fixed income returns were highly correlated to the risk appetite of the market as the most risky fixed income instruments performed the best and the lowest risk instruments lagged. This increase in investor risk appetite was primarily due to the unified actions of the European Central Bank and the Federal Reserve as they renewed their pledges to take the necessary steps to stimulate world economies.

While government bond returns were slightly negative during the end of 2012, corporate credit produced gains as credit spreads continued to tighten due to investor's continued search for yield in the low interest rate environment. At the beginning of 2013, domestic fixed income showed signs of reaching a plateau, with the potential for rising of interest rates becoming more probable as economic data showed signs of an improving economy. Additionally, global headwinds coming out of Europe and Asia still remained a concern among investors resulting in continued volatility. Towards the end of the fiscal year, economic forecasts following the Federal Reserve's June 2013 meeting indicated positive growth in the near future, along with forecasting further declines in the unemployment rate. This, coupled with the Fed's indication that the current quantitative easing program could begin to taper later in the year, caused the bond market to fall resulting in either negative or flat returns in most sectors.

Private equity markets have shown increasing correlation to public equity markets over recent years [especially since the adoption of fair market value accounting in 2007 (ASC 820)]. However, the correlation is not straightforward; the performance of private equity markets has generally been lagged and muted relative to public equity markets due to the inherent delays associated with getting privately held assets appraised and other factors. Price changes in the public equity markets have generally rippled through the Private Equity Portfolio over subsequent quarters and price changes experienced in the public markets, both positive and negative, have generally translated to the private equity markets at lesser magnitudes.

Reflecting public equity returns in fiscal year 2012-2013, the Russell 3000 Index + 3 percent with a quarter lag (the Private Equity Portfolio benchmark) was up over 11 percent in the last quarter used for measuring private equity performance (March 2013). Performance for the Private Equity Portfolio measured over a one-year period may not be particularly significant because private equity is a long-term investment. Investors are usually locked in for an average of 10 years or longer, which makes the performance of the industry over at least a 3-5 year period more appropriate to consider than one year results. The Private Equity Portfolio would not typically absorb the price volatility as seen in the public equities immediately, but would instead do so over subsequent quarters.

Over the fiscal year 2012-2013, strong economic growth indicators on top of an already recovering U.S. economy led to robust real estate performance as improvements were seen in most sectors. With increased sales volume and prices, and capital markets facilitating access to capital, the commercial real estate markets have posted double digit returns. The Federal Reserve's commitment to keep interest rates low throughout the fiscal year has also facilitated the return of using leverage for various transactions, providing the potential for better returns. Occupancy across all property types has improved over the year and lease activity has also increased. As prices rise, investors seek value-added and special opportunity-oriented strategies that benefit from providing supply into the highly priced inventories.

Performance of the Real Estate Portfolio is measured through appraisals and valuations completed on a quarterly and annual basis. For fiscal year 2012-2013, the Portfolio generated double digit returns and outperformed the benchmark by 3.6 percent. Additionally, as a secondary benchmark, the Portfolio also monitors performance to the ODCE index (which represents Leveraged Core Assets in the U.S.). Although this benchmark does not reflect the approximately 15.0 percent international portion of the portfolio, it does take into account the effects of leverage. Returns over a one year period are not

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typically indicative of long term results, but as the CalSTRS Real Estate Portfolio is in its third year of a planned five year transition to lower risk, continued positive performance with stable returns is expected.

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, 2013, included a board-sponsored PEPRA conforming bill, AB 1381 (PER&SS), intended to make various technical corrections and conforming changes that align the Teachers' Retirement Law with the provisions of PEPRA. A related bill, SB 13 (Beall), is the PEPRA clean-up bill sponsored by the chair of the Senate policy committee that makes various conforming and clarifying changes to PEPRA. This bill includes provisions with the intention to allow individuals with concurrent membership as of December 31, 2012, who performed creditable service under that system within the six months prior to becoming a CalSTRS member, to be a CalSTRS 2% at 60 member.

As of mid-October 2013, the U.S. Government has failed to adopt a budget, resulting in a Federal Government shut-down. If the shutdown lasts for just a few weeks, it is likely to have a minor impact on U.S. gross domestic product and the U.S. equity markets. If the shut-down lasts more than a month, the impact will increase and may reduce U.S annual economic growth by a full percentage point. This may weigh on the domestic equity market and limit its earnings potential. CalSTRS investment staff, consultants, and money-managers continuously monitor changes to global financial markets, making small adjustments to the asset allocation of the plan daily.

Of larger concern is the indecision by the U.S. Congress and the President to extend the Federal debt ceiling. The uncertainty created has increased the volatility of the U.S. equity market and the risk of growth investments. If the U.S government defaults on its obligations, the ramifications are enormous, virtually endless, and global in nature. The unwillingness of the U.S. government to pay its debts would be historic and re-define what has been viewed as a "risk-free" investment for the past 140 years.

The CalSTRS investment portfolio has adequate liquidity to weather a default event. If there is a prolonged event, beyond a day or two, it would impair the U.S. equity market and result in a downgrade of the U.S. credit rating. These events would create a significant risk to all global investments and likely result in a decline in value of most of the CalSTRS portfolio. For updated information on the current value and asset mix of the investment portfolio, refer to CalSTRS.com.

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 Position
As of June 30, 2013 (with Comparative Totals as of June 30, 2012)
(Dollars in Thousands)

	State Teachers' Retirement Plan	Pension2 403 (b) Plan	Pension2 457 Plan	Teachers' Health Benefits	Teachers' Deferred Compensation	Comparative Totals 2013	Comparative Totals 2012
Assets							
Investments, at fair value:							
Short term	$ 2,131,418	$ 15,081	$ 1,287	$ 539	$ 729	$ 2,149,054	$ 2,466,116
Debt securities	28,868,737	-	-	-	-	28,868,737	28,673,273
Global equity securities	86,932,597	-	-	-	-	86,932,597	73,444,437
Mutual funds	-	284,260	8,133	-	-	292,393	237,816
Guaranteed annuity contracts	-	121,249	3,010	-	-	124,259	102,701
Inflation sensitive	705,336	-	-	-	-	705,336	313,410
Private equity investments	22,339,860	-	-	-	-	22,339,860	22,513,367
Real estate investments	23,807,028	-	-	-	-	23,807,028	22,691,550
Overlay	901,285	-	-	-	-	901,285	566,315
Securities lending collateral	23,215,906	-	-	-	-	23,215,906	23,689,628
Total investments	188,902,167	420,590	12,430	539	729	189,336,455	174,698,613
Cash and cash equivalents	1,827,146	-	-	-	1	1,827,147	1,633,161
Receivables:							
Investments sold	2,224,162	-	-	-	-	2,224,162	630,787
Foreign currency forward contracts (net)	13,151	-	-	-	-	13,151	-
Interest and dividends	388,714	-	-	1	1	388,716	379,196
Member, employer and State	612,643	-	-	-	-	612,643	648,513
Loan receivable	23,042	-	-	-	-	23,042	24,013
Other	19,967	5,067	118	1	73	25,226	18,670
Total receivables	3,281,679	5,067	118	2	74	3,286,940	1,701,179
Other assets:							
Capital assets, net of accumulated depreciation	237,901	-	-	-	-	237,901	244,507
Other	928	-	-	-	-	928	345
Total other assets	238,829	-	-	-	-	238,829	244,852
Total assets	194,249,821	425,657	12,548	541	804	194,689,371	178,277,805
Liabilities							
Investments purchase payable	2,568,142	-	-	-	-	2,568,142	1,557,997
Foreign currency forward contracts (net)	-	-	-	-	-	-	1,025
Loan payable	937,494	-	-	-	-	937,494	1,011,158
Benefits in process of payment	1,044,692	-	-	-	-	1,044,692	78,050
Other	104,131	1,113	111	117	726	106,198	216,717
Securities lending obligation	23,246,453	-	-	-	-	23,246,453	23,734,609
Total liabilities	27,900,912	1,113	111	117	726	27,902,979	26,599,556
Assets held in trust for pension/other postemployment benefits	$ 166,348,909	$ 424,544	$ 12,437	$ 424	$ 78	$ 166,786,392	$ 151,678,249

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

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

California State Teachers' Retirement System
Statement of Changes in Fiduciary Net Position
For the Fiscal Year Ended June 30, 2013
(with Comparative Totals for the Fiscal Year Ended June 30, 2012)
(Dollars in Thousands)

	State Teachers' Retirement Plan	Pension2		Teachers' Health Benefits	Teachers' Deferred Compensation	Comparative Totals	
		403 (b) Plan	457 Plan			2013	2012
Additions							
Contributions:							
Member contributions	$ 2,336,731	$ 57,273	$ 2,591	$ -	$ -	$ 2,396,595	$ 2,339,888
Employer contributions	2,283,263	269	37	35,022	-	2,318,591	$ 2,272,822
State of California	1,328,298	-	-	-	-	1,328,298	$ 1,302,581
Total contributions	5,948,292	57,542	2,628	35,022	-	6,043,484	5,915,291
Investment Income (Loss):							
Net appreciation (depreciation) in fair value of investments	16,225,186	37,586	920	-	-	16,263,692	(2,587,022)
Interest, dividends and other	4,689,579	5,565	161	6	3	4,695,314	3,966,803
Securities lending income	129,957	-	-	-	-	129,957	158,280
Less investment expenses:							
Cost of lending securities	(29,647)	-	-	-	-	(29,647)	(34,308)
Borrowing costs	(18,420)	-	-	-	-	(18,420)	(17,142)
Reverse repurchase agreement	(3,728)	-	-	-	-	(3,728)	(6,422)
Other investment expenses	(310,489)	-	-	-	-	(310,489)	(402,507)
Net investment income	20,682,438	43,151	1,081	6	3	20,726,679	1,077,682
Other income	1,241	-	-	-	563	1,804	4,882
Total additions	26,631,971	100,693	3,709	35,028	566	26,771,967	6,997,855
Deductions							
Retirement, disability, death and survivor benefits	11,133,282	-	-	-	-	11,133,282	10,439,225
Premiums paid	-	-	-	34,702	-	34,702	34,412
Distributions and withdrawals	-	25,727	530	-	-	26,257	19,997
Purchasing power benefits	221,451	-	-	-	-	221,451	234,612
Refunds of member contributions	104,994	-	-	-	-	104,994	108,111
Administrative expenses	136,944	754	22	340	600	138,660	140,093
Other expenses	4,448	-	-	-	30	4,478	3,298
Total deductions	11,601,119	26,481	552	35,042	630	11,663,824	10,979,748
Net increase (decrease)	15,030,852	74,212	3,157	(14)	(64)	15,108,143	(3,981,893)
Assets held in trust for pension/other postemployment benefits							
Beginning of the year	151,318,057	350,332	9,280	438	142	151,678,249	155,660,142
End of the year	$ 166,348,909	$ 424,544	$ 12,437	$ 424	$ 78	$ 166,786,392	$ 151,678,249

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 traditional defined benefit, cash balance and defined contribution plans, including disability and survivor benefits. 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. 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.

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 Benefits 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, the Cash Balance Benefit Program, and the Replacement Benefits 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. With the passage of the California Pension Employees' Pension Reform Act of 2013 (PEPRA), CalSTRS now has two benefit formulas:

- CalSTRS 2% at 60: Members first hired on or before December 31, 2012, to perform service that could be creditable to CalSTRS
- CalSTRS 2% at 62: Members first hired on or after January 1, 2013, to perform service that could be creditable to CalSTRS

At June 30, 2013, there were 1,659 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, 2012, membership consisted of:

	June 30, 2012
Active Members	
Vested	323,586
Nonvested	97,913
Inactive Members	178,655
Retirees and Benefit Recipients	262,038
Total Members, Retirees and Beneficiaries	**862,192**

Information above is the most recent available as of June 30, 2013.

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

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. There are several differences between the two benefit formulas which are noted below.

CalSTRS 2% at 60

- CalSTRS 2% at 60 members are eligible for normal retirement at age 60, with a minimum of five years of credited service. 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, known as the career factor. The maximum benefit with the career factor is 2.4 percent of final compensation.
- 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 members with less than 25 years of credited service, final compensation is the highest average annual compensation earned for any three consecutive years of credited service.
- The limit on compensation that can be counted towards a member's benefit is $255,000 for 2013, if hired on or after July 1, 1996. The limit is increased based on cost-of-living increases calculated per Internal Revenue Code Section 401(a)(17). No contributions are paid by the member, employer or the state on compensation in excess of the limit, and any compensation beyond the limit is excluded from determining final compensation.
- Final compensation is based on different forms of compensation, including salary, performance bonuses and the payment of cash in-lieu of receiving fringe benefits. Other types of compensation, such as compensation for unused accumulated leave, are not creditable compensation and do not count toward any CalSTRS benefit program.
- Members who retire on or after January 1, 2001, and accumulated at least 30 years of credited service by December 31, 2010, receive a longevity bonus of $200, $300 or $400 per month for 30, 31 or 32 or more years of credited service, respectively.

CalSTRS 2% at 62

- CalSTRS 2% at 62 members are eligible for normal retirement at age 62, with a minimum of five years of credited service. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service. An early retirement option is available at age 55. The age factor for retirement after age 62 increases with each quarter year of age to 2.4 percent at age 65 or older.
- All CalSTRS 2% at 62 members have their final compensation based on their highest annual salary rate for three consecutive years of creditable service.
- The limit on creditable compensation that can be counted towards a member's benefit is 120 percent of the Social Security wage base, which in 2013 is $136,440. The limit is adjusted each year based on the changes in the Consumer Price Index.

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- Compensation paid to CalSTRS 2% at 62 members that is creditable to CalSTRS benefit programs is only compensation that is regularly payable in cash pursuant to a publicly available pay schedule. Any compensation for service in excess of one year in a school year due to overtime or working additional assignments is credited to the Defined Benefit Supplement Program so long as it is under the creditable compensation cap of 120 percent of the Social Security wage base. Other compensation, such as allowances, bonuses, cash in-lieu of fringe benefits, limited-period compensation or compensation determined to have been paid for the purposes of enhancing a benefit, are not creditable to any CalSTRS benefit program.

The following provisions apply to both CalSTRS 2% at 60 and 2% at 62 members:

- After earning five years of credited service, members become 100 percent vested in retirement benefits.
- 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, 2013, the rate of interest credited to members' accounts was 0.50 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.
- Requests to purchase nonqualified service, or airtime, had to be received by CalSTRS on or before December 31, 2012. Requests received after this date were not processed.
- The member's benefit is reduced dollar for dollar, regardless of age, for the first 180 days after retirement if the member performs activities in the public schools that could be creditable to CalSTRS, unless the governing body of the school district takes specified actions with respect to a member who is above normal retirement age.
- Any enhancements to the CalSTRS Defined Benefit Program made on or after January 1, 2013, apply only to service performed on or after the effective date of the enhancement.
- Defined Benefit Program benefits must be forfeited by any CalSTRS member who is convicted of committing a felony in the course of his or her official duties, including specifically if the felony involved a child with whom the member had contact as part of the member's official duties.

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, 2013, CalSTRS has a receivable balance from the sale of the Elk Hills Naval Petroleum Reserve in the amount of $15.6 million.

The state is required to contribute an amount equal to 2.5 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 addition, the state made additional payments in fiscal year 2012-13 in accordance with Education Code 22954.5 to pay

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principal and interest on the judgment in the case of Teachers' Retirement Board v. Genest and Chiang. In fiscal year 2012-13, the amount contributed to the SBMA was $584.8 million, excluding School Lands Revenue.

Contributions

Required member, employer and state contribution rates are set by the California Legislature and Governor and detailed in 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	-	Under CalSTRS 2% at 60, it was 8.0 percent of applicable member earnings. Under CalSTRS 2% at 62, members contribute 50 percent of the normal cost of their retirement plan, which resulted in an 8.0 percent contribution rate for fiscal year 2012-13.
Employers	-	8.0 percent of applicable member earnings plus an additional 0.25 percent to fund additional service credit for accumulated sick leave.
State	-	2.017 percent of the members' creditable earnings from the fiscal year ending in the prior calendar year. State contributions totaled $529.9 million in fiscal year 2012-13.
		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(b). 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 actuarial valuation, as of June 30, 2011, there was no normal cost deficit, but there was an unfunded obligation for benefits in place as of July 1, 1990. As a result, the state was required to contribute additional quarterly payments starting October 1, 2012, at an additional contribution rate of 0.774 percent. As of June 30, 2013, the state has contributed $152.5 million of the $203.3 million total amount for fiscal year 2012-13. The fourth quarterly payment of $50.8 million was transferred on July 1, 2013.
		As of June 30, 2012, actuarial valuation, there was 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, 2013, at a contribution rate of 1.024 percent.

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 members of the Defined Benefit Program who make contributions to CalSTRS on creditable compensation earned on and after January 1, 2001, have an account under the Defined Benefit Supplement Program and are eligible to receive a benefit based on the amount of funds contributed. Membership in the Defined Benefit Supplement Program is not optional.

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 3.75 percent for the fiscal year ended June 30, 2013. 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, 2013.

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Contributions
Beginning July 1, 2002, for creditable service in excess of one year of service credit within one fiscal year, the member contributions of 8.0 percent and employer contributions of 8.0 percent are credited to the members' nominal Defined Benefit Supplement Program account (up to the compensation cap). Also, contributions for compensation as a result of retirement incentives or limited-term enhancements are credited to the members' Defined Benefit Supplement Program account, for CalSTRS 2% at 60 members.

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 3.75 percent for the year ended June 30, 2013. 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, 2013.

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

Participants - 4.0 percent of applicable participant's earnings

Employers - 4.0 percent of applicable participant's earnings

Employers may enter into a collective bargaining agreement to pay different rates if certain minimum conditions are met. At June 30, 2013, there were 31 contributing school districts and 33,710 contributing participants.

STRP Replacement Benefits Program
The STRP Replacement Benefits Program is 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, and is 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. In 2013, the federal limit applicable to a 65-year-old CalSTRS member is $175,432. Under CalSTRS 2% at 62, members will not receive any benefits in excess of the IRC Section 415(b) limit.

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 Benefits 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. At June 30, 2013, there were 267 retirees, beneficiaries, and non-member spouses receiving benefits from the Replacement Benefits Program.

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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. TIAA-CREF is responsible for administrative services, including custody and record-keeping services, while CalSTRS performs the investment management functions of determining, monitoring and maintaining the plan's investments.

As of June 30, 2013, the IRC 403(b) and 457 plans had approximately 7,474 and 349 plan participants with account balances and approximately 740 and 25 participating employers (school districts), respectively. Pension2 is available to all full-time California pre-kindergarten through community college district and county office of education employees. Part-time employees' eligibility is determined by their employers. Enrollment in the 457 plan is by employer 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. Pension2 is not directly affected by PEPRA. However, according to PEPRA, employers may provide a contribution to a defined contribution plan, such as Pension2, for 2% at 62 member compensation in excess of the compensation cap.

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 eligible retired members of the Defined Benefit Program. At June 30, 2013, there were 7,716 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 pre-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 on or before June 30, 2012. As of the June 30, 2012 valuation, active and deferred members are no longer eligible for future coverage under the MPP Program.

Contributions
The MPP Program is funded on a pay-as-you go basis from a portion of the monthly Defined Benefit Program 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, a vendor registration program and an employer compliance assistance program.

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On September 1, 2011, CalSTRS entered into a five-year Open Architecture Bundled Administration Agreement with Los Angeles Unified School District (LAUSD) to provide record-keeping and administrative services for the Los Angeles Unified School District 457(b) Plan (LAUSD 457(b) Plan). CalSTRS' responsibilities under this agreement are to provide record-keeping services that include maintaining participant account balances, processing participant transactions, providing participant statements and education, and performing tax compliance and reporting functions. CalSTRS has determined that LAUSD retains investment fiduciary responsibilities for the LAUSD 457(b) Plan, as LAUSD has maintained the plan investment management functions, which include determining, monitoring and maintaining the plan's investment offerings. Therefore, CalSTRS has not included the LAUSD 457(b) Plan assets, liabilities and associated changes within its Statement of Fiduciary Net Position nor the Statement of Changes in Fiduciary Net Position. At June 30, 2013, the fair market value of LAUSD 457(b) Plan assets was $51 million. The fees CalSTRS receives in association with the services provided under this agreement are accounted for within the TDCF.

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 earned. Furthermore, CalSTRS recognizes employer and state contributions when earned 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. Purchases and sales of investments are recorded on the trade date. Interest income is recorded on an accrual basis. Dividends are recorded on the ex-dividend date.

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 and cash equivalents held by CalSTRS include repurchase agreements, foreign currency, deposits with the State Treasury and master custodian, and cash held at a commercial bank for operational purposes.

Investments
CalSTRS investments held at June 30, 2013, 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 securities, global equities, mutual funds, guaranteed annuity contracts, inflation sensitive, overlay, private equities, real estate and other investments.

In the Statement of Changes in Fiduciary Net Position, CalSTRS presents the net appreciation (depreciation) in the fair value of its investments, which consists of the realized gains and losses on securities sold and the unrealized appreciation (depreciation) on those investments still held in the portfolio.

The value and performance of CalSTRS investments are subject to various risks, including credit risk, interest rate risk, concentration of credit risk, custodial credit risk and foreign currency risk, which are in turn affected by economic and market factors impacting certain industries, sectors or geographies. See Note 4 for disclosures related to these risks.

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Investments are reported at fair value. The diversity of the investment types in 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, securitized offerings backed by residential and commercial mortgages and foreign debt securities. 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 investments' type.

Global Equity
The majority of global equity securities held by CalSTRS are actively traded on major stock exchanges. These exchanges make information on trades of 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.

Inflation Sensitive
The inflation sensitive portfolio holds investments in global inflation-indexed bonds (also known as inflation-linked bonds) and investments in infrastructure. Global inflation-indexed bonds are bonds where the principal is indexed to inflation. The CalSTRS portfolio consists of inflation-linked bonds issued by the U.S., Canada, Japan, Australia and a wide range of European countries, representative of the countries reflected in the performance benchmark. The values of the U.S. inflation-protected

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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. CalSTRS invests as a limited partner in infrastructure fund(s), which is valued using a methodology similar to that described within the Private Equity section below. As of June 30, 2013, the inflation sensitive portfolio has approximately 41.4 percent and 58.6 percent invested in global inflation linked bonds and infrastructure, 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. CalSTRS receives these audited financial statements including valuation results from the general partners. CalSTRS reviews valuation policies for a sample of general partners on a periodic basis. The most significant input into the NAVs 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. The valuation assumptions are based upon the nature of the investment and the underlying business. The valuation techniques vary by investment type and involve a certain degree of expert judgment. As of June 30, 2013, the private equity portfolio has approximately 93.2 percent, 5.9 percent and 0.9 percent invested in funds, co-investments and other investments, respectively.

Real Estate
The real estate portfolio holds investments in commingled funds, joint ventures, co-investments, wholly-owned properties, public REITS and debt instruments including, but not limited to, promissory notes and preferred equity. Leverage may be used to enhance investment returns as set forth in the CalSTRS Real Estate Investment Policy.[1] Wholly-owned properties include retail, office, industrial, and multi-family properties held for the purposes of producing income and value appreciation. CalSTRS, as limited partner or member partner, 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 annually. On a quarterly basis, fair values are estimated by the third party advisor or operating partner using general market and property specific assumptions, which are reviewed and approved by CalSTRS management.

Real estate investments in commingled 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. Limited partner interests in commingled funds are 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 using 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 use both market and property specific inputs. The holding fair values are reviewed by CalSTRS quarterly to ensure they are accurately reported. As of June 30, 2013, the real estate

[1] See Note 4 regarding the Real Estate Investment Policy.

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portfolio has approximately 40.9 percent, 37.6 percent, 14.8 percent, 4.8 percent and 1.9 percent invested in commingled funds, joint ventures, wholly-owned properties, co-investments and other investments, respectively.

Overlay
The overlay asset class is comprised of three strategies, Stable Return, Innovation and Strategic Overlay. Stable Return consists of mortgage loans retained from the Home Loan Program, Innovation consists of alternative investment strategies and Strategic Overlay consists of currency and derivative strategies. Investments in mortgage loans primarily include first and second mortgage liens. Each loan is priced at cost with a discount applied for delinquencies over 90 days. The alternative strategies include several global macro hedge funds, a commodities manager and a risk-based manager. CalSTRS invests as a limited partner in a managed account for the hedge fund program and limited liability company for the risk-allocation program. CalSTRS alternative strategy investments are valued using the net asset value of the partnership, similar to the methodology described within the Private Equity section below. Investments in commodity-related futures are valued based on quoted market prices. Strategic Overlay strategies include the use of currency forwards and option contracts to protect the value of non-U.S. investments against foreign currency fluctuations, while also recognizing opportunities for additional return (alpha) generation within the currency markets. These contracts are valued using a variety of factors that may include the spot price of the underlying currency pair, the strike price, length of the contract, implied volatility and interest rates. As of June 30, 2013, the overlay portfolio has approximately 64.7 percent, 35.0 percent and 0.3 percent invested in alternative funds, mortgage loans and other overlay investments, respectively.

Investment Risk Management
CalSTRS enters into currency forwards and option contracts to protect the value of non-U.S. investments against foreign currency fluctuation. CalSTRS could be exposed to risk if the counterparties to the forward and option contracts are unable to meet the terms of their contracts. CalSTRS also enters into futures contracts to hedge risks in the equity and fixed income markets. The futures contracts are financial instruments that derive their value from underlying indices. CalSTRS 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 CalSTRS, which consist of land, building, equipment, and intangible assets are recorded at cost and reflected on the Statement of Fiduciary Net Position, net of accumulated depreciation/amortization. The capitalization threshold for capital assets is $1 million. 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 through June 30, 2013 of fiscal year 2012-13 were $32.4 million and $9.9 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, 2013, there has been no impairment of capital assets.

Administrative Expenses
The cost of administering the CalSTRS system is financed through contributions and investment earnings. Schedule III (Schedule of Administrative Expenses) provides a listing of administrative expense by type.

Income Taxes
The STRP and THBF are organized as a tax-exempt retirement plan under the IRC. Pension2, which includes 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.

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Investment Expenses
Expenses directly associated with investment management, operations and servicing, as well as foreign taxes have been included as 'Other investment expenses' in the Statement of Changes in Fiduciary Net Position. Schedule IV (Schedule of Investment Expenses) provides a listing of investment expenses by type.

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 Position. CalSTRS also reports the income earned and costs of lending securities as investment income and expenses on the Statement of Changes in Fiduciary Net Position.

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 Position. Any interest cost associated with the reverse repurchase agreements is reported as investment expense on the Statement of Changes in Fiduciary Net Position. As of June 30, 2013, CalSTRS held no reverse repurchase agreements.

Reserves
CalSTRS maintains accounts within the Assets Held in Trust for Pension/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 STRP, the Defined Benefit Supplement Program and the Cash Balance Benefit Program. Teachers' Retirement Law also requires CalSTRS to maintain an account for the SBMA.

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 may have a Defined Benefit Supplement account that accumulates contributions and interest. The Defined Benefit Supplement Program offers supplemental income in addition to their regular Defined Benefit program benefit. During a member's career, funds are accumulated in the Defined Benefit Supplement Member Reserve, and 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.

Cash Balance Annuitant Reserve
Part 14, Chapter 2 Section 26105 of the Teachers' Retirement Law, established 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 participant's career, funds are accumulated in the Cash Balance Participant Reserve. When a participant retires, the funds are converted to the Cash Balance Annuitant Reserve.

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Cash Balance Gain and Loss Reserve
Part 14, Chapter 2 Section 26202 of the Teachers' Retirement Law, established 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.

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 as long as funds are available. The Supplemental Benefit Maintenance Account is primarily funded by contributions from the state, School Lands monies, and the earned interest on the SBMA reserve balance based on the actuarially assumed interest rate.

The reserve balances as of June 30, 2013, are summarized in the table below:

Reserve Type	Reserve Balance (Dollars in Thousands)	
Defined Benefit Supplement Annuitant Reserve	$	558,152
Defined Benefit Supplement Gain and (Loss) Reserve		1,362,050
Cash Balance Annuitant Reserve		1,482
Cash Balance Gain and (Loss) Reserve		20,309
Supplemental Benefit Maintenance Account Reserve		9,269,803
Other Reserves Not Legally Required for Disclosure		155,574,596
Total	**$**	**166,786,392**

Reclassification
Certain reclassifications have been made to the comparative totals as of and for the year ended June 30, 2012, to conform to the presentation as of and for the year ended June 30, 2013. Reclassifications did not have an impact on assets held in trust for pension and other postemployment benefits or net increase in 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, 2012, from which the summarized information was derived.

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

3. Funded Status

State Teachers' Retirement Plan

The funded status of each program within the STRP as of June 30, 2012, 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	$ 144,232	$ 214,765	$ 70,533	67%	$ 26,404	267%
Cash Balance Benefit Program	$ 158	$ 158	$ -	100%	$ 151	0%
Defined Benefit Supplement Program	$ 8,042	$ 7,992	$ (50)	101%	$ 27,407	0%

As of June 30, 2012, the actuarial valuation report indicated that the actuarial value of assets does not include deferred losses of $9.4 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 Unfunded Actuarial Accrued Liability (UAAL) on a market basis would be $79.93 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 34.092 percent beginning on the valuation date is projected to amortize the UAAL over a 30-year period. This level contribution rate includes the aforementioned deferred losses of $9.4 billion. The increase in level contribution rate would be equivalent to 14.620 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 7.50 percent per year. Still, the Defined Benefit Program assets are projected to be sufficient to make benefit payments through 2043. 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.

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

Teachers' Health Benefits Fund

The funded status of the MPP Program, as of June 30, 2012, the most recent actuarial valuation date, is as follows (dollars in millions):

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll * (c)	UAAL as a % of Covered Payroll ((b-a)/c)
MPP Program	$ 0.4	$ 582.1	$ 581.7	0.1%	$ -	N/A

** As of June 30, 2012, active members are no longer eligible for future enrollment in the MPP Program. Therefore, the covered payroll is $0 for years 2012 and thereafter.*

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, $424 million based on the June 30, 2012 actuarial valuation of the Defined Benefit Program, 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 MPPP include techniques that are consistent with the long-term perspective of the calculations.

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

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 value of net assets
Actuarial Assumptions:		
Investment Rate of Return	7.50%	7.00%
Interest on Accounts	4.50%	7.00%
Wage Growth	3.75%	3.75%
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	24 years
Asset Valuation Method	Fair value of net assets	Fair value of net assets
Actuarial Assumptions:		
Investment Rate of Return	7.50%	4.00%
Interest on Accounts	7.50%	Not applicable
Wage Growth	3.75%	Not applicable
Consumer Price Inflation	3.00%	3.00%
Healthcare Cost Trend Rate Part A Premiums	Not applicable	3.5%
Healthcare Cost Trend Rate Part B Premiums	Not applicable	4.5%

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

4. Deposits and Investments

Deposits in the Pooled Money Investment Account, administered by the State Treasurer, represent various investments with approximately 278 average days to maturity and are reported at amortized cost, which approximates fair value. The State Treasury pools these monies with those of other state agencies for investing. Deposits in the Short-term Investment Fund, administered by State Street Bank, represents various investments with approximately 40 average days to maturity and is reported at amortized cost, which approximates fair value.

Repurchase agreement transactions as of June 30, 2013, have underlying collateral with fair values of approximately 102 percent of the cost of the repurchase agreement. The agreed-upon yields were 0.1 percent with maturity dates through July 1, 2013.

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 CalSTRS or the borrower. The underlying securities on loan are reported as assets on the Statement of Fiduciary Net Position. Collateral in the form of cash or other securities is required for 102 percent and 105 percent of the fair value of domestic securities and international equity securities loaned, respectively. For non-U.S. debt securities loaned, CalSTRS follows market practice which requires collateral of 102 percent of the fair value of the loaned securities. 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, 2013, the weighted duration difference between the investments and these loans was 28 days.

At June 30, 2013, the fair value of the securities on loan was $23.7 billion. The securities lending cash collateral obligations were $23.25 billion. The fair value of the re-invested cash collateral was $23.22 billion, the non-cash collateral was $1.0 billion and the calculated mark (additional collateral requested for the next business day) was –$8.6 million which was due from CalSTRS for securities on loan. The invested collateral and corresponding obligation are reflected in the Statement of Fiduciary Net Position 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 $1.0 billion is not reported in the Statement of Fiduciary Net Position because CalSTRS is not permitted to pledge or sell these collateral securities received unless the borrower defaults. The contracts with the securities lending agents require them to indemnify CalSTRS 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 CalSTRS 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, 2013 the estimated fair value of real estate investments (net of all outstanding debt) totaled approximately $23.8 billion. The CalSTRS share of outstanding debt is $8.9 billion, excluding obligations of limited partnership interests in commingled funds.

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

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, 2013:

Real Estate Debt Service Requirements
(Dollars in Thousands)

	Principal	Interest	Total
Year Ended June 30, 2014	$ 1,055,687	$ 374,507	$ 1,430,194
2015	1,325,788	322,673	1,648,461
2016	950,223	277,162	1,227,385
2017	1,701,011	233,052	1,934,063
2018	1,006,993	144,036	1,151,029
2019 - 2023	2,629,190	300,846	2,930,036
2024 - 2028	104,096	31,278	135,374
2029 - 2033	740	25,938	26,678
2034 - 2038	77,316	21,342	98,658
2039 - Thereafter	46,720	9,270	55,990
Total	$ 8,897,764	$ 1,740,104	$ 10,637,868

Real estate debt currently bears interest at fixed and variable rates ranging from 1.5 to 8.3 percent and 1.4 to 5.5 percent, respectively.

In fiscal year 2011-2012, CalSTRS entered into three (3) separate unsecured credit facilities (Master Credit Facility Portfolio). The proceeds from the Master Credit Facility Portfolio provide the source of funds for managing capital flows of investment strategies. As of June 30, 2013, the total available lines of credit in the Master Credit Facility Portfolio was $1.4 billion, the total principal amount borrowed was $924.6 million and the remaining amount available was $475.4 million. These lines of credit will mature between September 2014 and September 2015.

The CalSTRS Real Estate Investment Policy, effective June 2011, 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, 2013, the total leverage on the real estate portfolio, excluding obligations of limited partnership interests in commingled funds was 45.9 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 and Commercial Mortgage-Backed Securities. TALF provides non-recourse loans that are collateralized by newly originated or existing securities that meet specific credit quality and other program requirements.

At June 30, 2013, the outstanding TALF loan balance was $12.1 million with a variable rate of 1.5 percent and maturity date of August 13, 2014. There are no regularly scheduled principal repayments on the loan; however, repayments of the principal on the collateral securing the loan is used in part to repay the principal on the loan in accordance with the terms of the Master Loan and Security Agreement with the Fed. Upon loan maturity, CalSTRS may repay the loan or surrender the collateral to the Fed in lieu of loan repayment.

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

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. The primary investment types within the U.S. Government and Agency Obligations category are U.S. government securities, Government National Mortgage Association (GNMA), Freddie Mac (FHLMC), Fannie Mae (FNMA) and issues from certain municipalities. The primary investment types with the Credit Obligations category are corporate bonds, asset-backed securities and bank loans.

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.

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 (i.e., Baa3/BBB-/BBB- or better) by two out of the three nationally recognized statistical rating organizations (NRSROs), such as Moody's Investors Service, Inc., Standard and Poor's Rating Service, or Fitch Ratings. The ratings used to determine the quality of the individual securities in the below table are the ratings with the highest degree of risk supplied by two NRSROs. Obligations issued or guaranteed by the U.S. federal government or government-sponsored agencies are eligible without limit. 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 5 percent per issuer, 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 on the amount of debt of any one issuer an investment manager may hold are negotiated on a manager by manager basis.

CalSTRS may invest in an unrated security if the security is comparable in quality to other rated securities that are eligible for purchase. 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.

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

At June 30, 2013, the fixed income, short term investments and security lending collateral are shown by credit rating below:

Fixed Income & Short Term
(Dollars in Thousands)

Ratings	Credit Obligations	International Government	Money Market Securities	Pooled Money Investment Account	Securitized Obligations	Short Term Investment Fund	U.S. Government & Agency Obligations	Mutual Funds	Annuity Contracts	Total
Long Term Ratings										
AAA	$ 352,402	$ 89,294	$ -	$ -	$ 739,075	$ -	$ 41,206	$ 17,802	$ -	$ 1,239,779
AA	567,705	138,152	-	-	133,312	-	7,352,497	17,368	-	8,209,034
A	2,466,384	114,206	-	-	119,351	-	176,364	-	-	2,876,305
BBB	3,411,497	327,373	-	-	97,491	-	8,114	-	-	3,844,475
BB	784,446	2,970	-	-	52,235	-	-	-	-	839,651
B	1,025,435	2,221	-	-	31,535	-	6,285	-	-	1,065,476
CCC	371,035	-	-	-	51,553	-	-	-	-	422,588
CC	4,968	-	-	-	11,043	-	-	-	-	16,011
D	767	-	-	-	14,178	-	-	-	-	14,945
NR	678,823	179,054	695,555	140,353	382,237	488,827	1,066,027	-	124,259	3,755,135
NA	-	-	-	-	-	-	9,339,137	-	-	9,339,137
WR	151,769	-	10,008	-	-	-	-	-	-	161,777
Short Term Ratings										
A-1+	$ -	$ -	$ -	$ -	$ 10,730	$ -	$ -	$ -	$ -	$ 10,730
Total	$ 9,815,231	$ 853,270	$ 705,563	$ 140,353	$ 1,642,740	$ 488,827	$ 17,989,630	$ 35,170	$ 124,259	$ 31,795,043

The PMIA $140.353 million is comprised of the following funds: STRP $139.085 million, THBF $539 thousand, and TDCF $729 thousand.

The above table includes $16.368 million in Money Market Securities, and $35.170 million in Mutual Funds, and $124.259 million in Annuity Contracts which are reflected in Pension 2 Program on the Statement of Fiduciary Net Asset.

The above table also excludes $988.798 million of equity positions in Inflation Sensitive and Overlay Investments.

Securities Lending Collateral
(Dollars in Thousands)

Ratings	Credit Obligations	Money Market Securities	Securitized Obligations	Short Term Investment Fund	U.S. Government & Agency Obligations	Total
Long Term Ratings						
AAA	$ 93,033	$ 84,959	$ 4,674,435	$ -	$ -	$ 4,852,427
AA	425,356	545,690	303,226	-	1,067,065	2,341,337
A	1,339,163	65,297	181,224	-	-	1,585,684
BBB	-	-	19,058	-	-	19,058
BB	-	-	324	-	-	324
B	-	-	356	-	-	356
CCC	-	-	2,672	-	-	2,672
CC	-	-	3,260	-	-	3,260
D	-	-	12,487	-	-	12,487
NR	349,967	8,486,417	80,212	529,475	-	9,446,071
Short Term Ratings						
A-1+	$ -	$ -	$ 213,523	$ -	$ -	$ 213,523
A-1	1,308,374	2,454,728	110,734	-	-	3,873,836
A-2	-	475,000	-	-	-	475,000
Total	$ 3,515,893	$ 12,112,091	$ 5,601,511	$ 529,475	$ 1,067,065	$ 22,826,035

Cash and accruals totaling $389,871 (in thousands) are not included in the total above but are included in the Securities Lending Collateral line item in the Statement of Fiduciary Net Assets.

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

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

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 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 (0.80 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.

The table below represents the net asset values and duration of the long-term fixed income portfolios at June 30, 2013, which include cash and accruals not included in the total investments section of the Statement of Fiduciary Net Position:

Long Term Fixed Income Investments
Duration
(Dollars in Thousands)

Investment Type (by portfolio)	Portfolio Net Asset Value	Effective Duration	Benchmark Duration	Difference
Core Portfolio				
Commercial Mortgage Backed Securities	$ 581,189	3.10	3.14	-0.04
Credit Obligations	6,418,989	6.39	6.40	-0.01
Mortgage Backed Securities	7,371,226	4.58	4.64	-0.06
U.S. Government & Agency Obligations	8,058,069	4.82	4.76	0.06
Debt Opportunistic				
Corporate High Yield	1,893,429	3.95	4.29	-0.34
Debt Core Plus	2,915,137	5.19	5.05	0.14
Leveraged Loans	396,632	0.33	0.25	0.08
Special Situations	144,892	0.07	5.09	-5.02
Total	$ 27,779,563	4.96	5.09	-0.13

The above net asset value excludes joint investments with real estate and overlay totaling $33,318 (in thousands) as of June 30, 2013.

Global inflation-linked securities and the home loan program were not included in the table above. The global inflation-linked securities had a net asset value of $295.0 million with an effective duration of 10.58 compared to the benchmark duration of 10.54 The home loan program had a net asset value of $392.5 million with a weighted average maturity of 26 years.

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

At June 30, 2013, the segmented time distribution for the short term fixed income portfolio based upon the expected maturity and/or first reset dates 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	TOTALS
Credit Obligations	$ 199,967	$ 300,187	$ 24,970	$ 5,135	$ 33,603	$ -	$ 563,862
Money Market Securities	1,159,202	574,005	25,005	97,399	-	-	1,855,611
Pooled Money Investment Account	140,353	-	-	-	-	-	140,353
Securitized Obligations	157,737	45,707	-	10,867	14,986	-	229,297
Short Term Investment Fund	488,834	-	-	-	-	-	488,834
US Government & Agency Obligations	250,423	79,995	85,706	70,077	547,492	257,098	1,290,791
Total	$ 2,396,516	$ 999,894	$ 135,681	$ 183,478	$ 596,081	$ 257,098	$ 4,568,748
Weightings	52.44%	21.89%	2.97%	4.02%	13.05%	5.63%	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 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 and cash and cash equivalents, classified as such in the Statement of Fiduciary Net Position.

At June 30, 2013, the segmented time distribution based upon the expected maturity and/or first reset date for the invested Securities Lending Cash Collateral 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
Credit Obligations	$ -	$ 175,005	$ 1,574,204	$ 885,496	$ 804,483	$ 76,705	$ 3,515,893
Money Market Securities	59,782	3,560,213	4,176,367	2,494,463	1,301,237	520,029	12,112,091
Securitized Obligations	-	-	4,967,932	243,457	194,713	195,409	5,601,511
Short Term Investment Fund	529,475	-	-	-	-	-	529,475
U.S. Government & Agency Obligations	-	676,250	30,000	-	-	360,815	1,067,065
Total	$ 589,257	$ 4,411,468	$ 10,748,503	$ 3,623,416	$ 2,300,433	$ 1,152,958	$ 22,826,035
Weightings	2.58%	19.33%	47.09%	15.87%	10.08%	5.05%	100.00%

Cash and accruals totaling $389,871 (in thousands) are not included in the total above but are included in the Securities Lending Collateral line item in the Statement of Fiduciary Net Assets.

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

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

At June 30, 2013, the weighted average maturity of investments classified for the Pension2 IRC 403(b) and 457 plans on the Statement of Fiduciary Net Position are as follows:

Pension2
Weighted Average Maturity
(Dollars in Thousands)

Investment Type	Maturity	Fair Value
Money Market Securities	55 days	$ 16,368
Vanguard Inflation Protected Securities Fund Institutional	8.8 years	17,802
Vanguard Short-Term Bond Index Fund Institutional	2.8 years	17,368
Total		$ 51,538

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.

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, 2013, CalSTRS 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, 2013, CalSTRS was in compliance with this policy. IRC 403(b) and 457 plans investments, which are comprised primarily of mutual funds have no single issuer that exceeds 5 percent of total investments.

Custodial Credit Risk
Custodial credit risk is the risk that if 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, 2013, all of CalSTRS non-cash investments, other than Pension2 investments, are held in CalSTRS name and/or CalSTRS nominee name and are not exposed to custodial credit risk. With the expiration of the Dodd Frank Provision as of December 31, 2012, cash held with the master custodian is insured up to $250,000 under the Federal Deposit Insurance Corporation (FDIC) general deposit insurance rules. CalSTRS does not have a general policy relating to custodial credit risk.

As of June 30, 2013, 100 percent of the IRC 403(b) and 457 plans 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

At June 30, 2013, CalSTRS investments 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	$ -	$ -	$ -	$ -	$ 4	$ 4
Australian Dollar	20,206	1,495,151	64,535	-	4,611	1,584,503
Brazilian Real	1,755	361,203	79,543	(5)	2,266	444,762
Canadian Dollar	31,012	1,698,221	15,521	13	2,037	1,746,804
Chilean Peso	31	15,904	-	-	(211)	15,724
Colombian Peso	-	597	-	(20)	55	632
Czech Koruna	-	16,458	-	-	490	16,948
Danish Krone	105	307,396	-	-	-	307,501
Egyptian Pound	-	-	-	-	(2)	(2)
Euro Currency	142,990	10,404,794	164,329	601	2,375	10,715,089
Hong Kong Dollar	13,002	1,092,542	-	2	-	1,105,546
Hungarian Forint	-	32,315	-	-	75	32,390
Kazakhstan Tenge	-	-	-	-	1	1
Indian Rupee	3,460	246,069	-	(99)	434	249,864
Indonesian Rupiah	1,000	187,081	-	(6)	916	188,991
Israeli Shekel	545	63,175	-	-	123	63,843
Japanese Yen	70,246	4,409,180	6,224	1,020	(282)	4,486,388
Malaysian Ringgit	-	50,656	-	6	448	51,110
Mexican Peso	629	242,832	95,240	7	(204)	338,504
Moroccan Dirham	-	-	-	-	(229)	(229)
New Romanian Leu	-	-	-	-	(2)	(2)
New Russian Ruble	-	-	-	7	3	10
New Taiwan Dollar	177	327,123	-	-	292	327,592
New Turkish Lira	-	-	-	-	-	-
New Zealand Dollar	161	34,147	-	-	(349)	33,959
Norwegian Krone	2,295	174,041	-	-	(1,293)	175,043
Pakistan Rupee	-	22,558	-	-	-	22,558
Peruvian Nouveau Sol	-	-	-	6	21	27
Philippine Peso	109	38,065	-	-	(640)	37,534
Polish Zloty	-	32,924	-	-	(552)	32,372
Pound Sterling	49,254	4,177,093	133,674	431	1,685	4,362,137
Singapore Dollar	891	382,707	-	(9)	817	384,406
South African Rand	179	370,031	-	17	451	370,678
South Korean Won	873	701,256	-	30	(172)	701,987
Swedish Krona	1,207	567,446	6,131	-	32	574,816
Swiss Franc	584	1,621,949	499	(6)	(501)	1,622,525
Thailand Baht	80	194,637	-	(31)	40	194,726
Tunisian Dinar	-	-	-	-	32	32
Turkish Lira	30	167,021	-	(12)	(106)	166,933
Yuan Renminbi	-	-	-	-	486	486
UAE Dirham	-	10,206	-	-	-	10,206
Total	$ 340,821	$ 29,444,778	$ 565,696	$ 1,952	$ 13,151	$ 30,366,398

The foreign currency figures are comprised of numerous portfolios within the debt securities, global equity, inflation sensitive, private equity, real estate investments and overlay line items on the Statement of Fiduciary Net Position.

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.

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

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 and/or oversight responsibilities for the Currency Management Program. The position 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 position 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 (i.e. Private Equity and Real Estate) equity portfolios.

As of June 30, 2013, the IRC 403(b) and 457 plans are not exposed to foreign currency risk.

Derivative Instruments
As of June 30, 2013, 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 Position.

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, 2013:

Investment Derivative Disclosure
(Dollars in Thousands)

	Net Appreciation (Depreciation) in Fair Value of Investments through June 30, 2013		Fair Value at June 30, 2013		
	Classification	Amount	Classification	Amount	Notional (Units/Shares)
Investment Derivatives Instruments					
Commodities Futures Long	Investment Income / (Loss)	$ (1,010)	Futures	$ -	28,073
Credit Default Swaps	Investment Income / (Loss)	(528)	Debt Securities	(663)	39,969
Interest Rate Swaps	Investment Income / (Loss)	(2,944)	Debt Securities	-	-
Foreign Currency Forwards	Investment Income / (Loss)	32,091	Foreign Currency Contracts	13,151	9,265,383
Futures (Domestic and Foreign)	Investment Income / (Loss)	49,728	Futures	-	301,589
Options	Investment Income / (Loss)	(5,008)	Debt Securities	36,135	208,461
Rights	Investment Income / (Loss)	(4,369)	Equities	897	1,438 Shares
Warrants	Investment Income / (Loss)	956	Equities	1,174	269 Shares
Total Derivative Instruments		$ 68,916		$ 50,694	

The total options amount of $36,135 is comprised of options bought and options written of $55,023 and $(18,888), respectively. (Dollars in Thousands)

At June 30, 2013, no derivative instruments were classified as short term, inflation sensitive, private equity or real estate investments or held as part of the CalSTRS securities lending collateral or Pension2 retirement plans.

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

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, 2013 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 forward rate at June 30, 2013.

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, 2013. The ratings used to determine the quality of the individual counterparty are the ratings with the highest degree of risk supplied by two NRSROs.

Counterparty Credit Rating
(Dollars in Thousands)

Ratings	Credit Default Swaps	Foreign Currency Forwards	Total
AA	$ -	$ 2,483	$ 2,483
A	312	19,223	19,535
Subtotal Investments in Asset Position	$ 312	$ 21,706	$ 22,018
Investments in Liability Position	(975)	(8,555)	(9,530)
Total Investments in Asset / (Liability) Position	$ (663)	$ 13,151	$ 12,488

The counterparty credit exposure for similar instruments with the 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, 2013, the aggregate amount of cash collateral held by CalSTRS on behalf of the non-exchange traded derivatives was $34.9 million.

The aggregate fair value of investment derivative instruments in an asset position subject to counterparty credit risk at June 30, 2013 was $22 million. This represents the maximum loss that would be recognized at the reporting date if all counterparties failed to perform as contracted.

At June 30, 2013, 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, 2013, 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, 2013.

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

Interest Rate Risk
At June 30, 2013, 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	$ (748)	$ -	$ (748)	$ -	$ -
Credit Default Swaps	85	-	85	-	-
Fixed Income Options	33,000	-	(17,166)	50,166	-
Total	$ 32,337	$ -	$ (17,829)	$ 50,166	$ -

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
Fixed Income Options Bought	10YR RTP Swaption Sept19 3.13 PUT	$ 28,625	$ 250,000
Fixed Income Options Bought	10YR RTP Swaption Jan23 3.9 PUT	7,551	100,000
Fixed Income Options Bought	10YR RTP Swaption May23 4.06 PUT	13,990	200,000
Fixed Income Options Written	10YR RTP Swaption Jan15 3.54 PUT	(3,729)	(100,000)
Fixed Income Options Written	10YR RTP Swaption May15 4.0575 PUT	(7,373)	(250,000)
Fixed Income Options Written	10YR RTP Swaption May15 4.025 PUT	(6,064)	(200,000)
Total		$ 33,000	$ -

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

Foreign Currency Risk
At June 30, 2013, CalSTRS is exposed to foreign currency risk on its investments in options, rights, swaps, warrants, and forward contracts in foreign currencies.

Foreign Currency Risk
(Dollars in Thousands)

(In U.S. Dollar Equivalents)

					Currency Forward Contracts		
Currency Name	**Options**	**Rights**	**Swaps**	**Warrants**	**Net Receivables**	**Net Payables**	**Total Exposure**
Argentine Peso	$ -	$ -	$ -	$ -	$ 4	$ -	$ 4
Australian Dollar	792	52	-	-	12,643	(8,032)	5,455
Bermuda	-	6	-	8	-	-	14
Brazilian Real	-	-	-	-	5,914	(3,648)	2,266
Canadian Dollar	-	-	-	-	10,142	(8,105)	2,037
Chilean Peso	-	-	-	-	-	(211)	(211)
Colombian Peso	-	-	-	-	65	(10)	55
Czech Koruna	-	-	-	-	883	(393)	490
Egyptian Pound	-	-	-	-	13	(15)	(2)
Euro Currency	790	820	-	-	13,467	(11,092)	3,985
Hungarian Forint	-	-	-	-	89	(14)	75
Indian Rupee	-	-	-	-	434	-	434
Indonesian Rupiah	-	-	-	-	1,136	(220)	916
Israeli Shekel	-	-	-	2	203	(80)	125
Japanese Yen	-	11	-	-	9,806	(10,088)	(271)
Kazakhstan Tenge	-	-	-	-	1	-	1
Malyasian Ringgit	-	-	-	-	563	(115)	448
Mexican Peso	-	-	-	-	318	(522)	(204)
Moroccan Dirham	-	-	-	-	-	(229)	(229)
New Romanian Leu	-	-	-	-	-	(2)	(2)
New Russian Ruble	-	-	-	-	3	-	3
New Taiwan Dollar	-	-	-	-	292	-	292
New Zealand Dollar	-	-	-	-	159	(508)	(349)
Norwegian Krone	-	-	-	-	1,436	(2,729)	(1,293)
Peruvian Nouveau Sol	-	-	-	-	140	(119)	21
Philippine Peso	-	-	-	-	-	(640)	(640)
Polish Zloty	-	-	-	-	1,143	(1,695)	(552)
Pound Sterling	334	-	(25)	-	16,586	(14,901)	1,994
Singapore Dollar	-	-	-	32	1,326	(509)	849
South African Rand	-	-	-	-	709	(258)	451
South Korean Won	-	-	-	-	-	(172)	(172)
Swedish Krona	-	-	-	-	1,326	(1,294)	32
Swiss Franc	-	-	-	-	5,786	(6,287)	(501)
Thailand Baht	-	-	-	-	40	-	40
Tunisian Dinar	-	-	-	-	32	-	32
Turkish Lira	-	-	-	-	153	(259)	(106)
Yuan Renminbi	-	-	-	-	641	(155)	486
Total	$ 1,916	$ 889	$ (25)	$ 42	$ 85,453	$ (72,302)	$ 15,973

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, 2013, the net unrealized gain on the foreign currency forward contracts was $13.2 million.

At June 30, 2013, the aggregate fair value of investment derivative instruments denominated in U.S. dollars was $34.7 million.

Contingent Features
At June 30, 2013, 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 CalSTRS financial statements.

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

6. Commitments

In connection with the purchase of partnership interests under various investment portfolios, CalSTRS has remaining unfunded commitments of approximately $14.9 billion at June 30, 2013. The following table depicts the unfunded commitments by asset strategy:

Asset Strategy	Unfunded Commitments *(Dollars in Thousands)*
Corporate Governance	$ 297,410
Fixed Income	5,484
Infrastructure	421,416
Private Equity	7,285,950
Real Estate	6,838,170
Total	$ 14,848,430

CalSTRS has entered into agreements through its Credit Enhancement Program to provide credit support and/or liquidity support on certain debt securities. At June 30, 2013, CalSTRS had commitments of approximately $1.5 billion expiring through March 2017. CalSTRS is paid a fee over the term of such agreements and earned approximately $11.8 million for the period ended June 30, 2013.

Medicare Premium Payment Program (MPP program)
Under current board policy, the assets set aside from the 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, 2012, actuarial valuation, the future employer contributions committed to funding the MPP Program obligations total $424 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 this statement are effective for financial statements for periods beginning after June 15, 2012. GASB Statement No. 61 slightly modifies the language in GASB 14 for inclusion of component units in the financial reporting entity of primary governments. The amended language does not result in any entity becoming a component unit under CalSTRS for financial reporting or change CalSTRS status as a component unit of the State.

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 this statement are effective for financial statements for periods beginning after December 15, 2011. The prior FASB and AICPA pronouncements being incorporated into GASB literature include a variety of different topics that apply primarily to governmental and proprietary funds and therefore have limited applicability to CalSTRS.

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

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, 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 this statement have been implemented in the financial statements for fiscal year 2012-13.

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 this statement are effective for financial statements for periods beginning after June 15, 2011. Management has evaluated GASB Statement No. 64 and determined the amendments made to GASB Statement No. 53 through this statement do not have an impact on CalSTRS financial reporting.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2012. Management is currently evaluating GASB Statement No. 65 and if applicable it will be implemented in the financial statements for fiscal year 2013-14.

GASB Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*, improves accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2012. Management has evaluated GASB Statement No. 66 and determined this statement does not have an impact on CalSTRS financial reporting.

GASB Statement No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*, will improve financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by the pension plans that are within its scope. The new information will enhance the decision-usefulness of the financial reports of these pension plans, their value for assessing accountability, and their transparency by providing information about measures of net pension liabilities and explanations of how and why those liabilities changed from year to year. The net pension liability (NPL) information, including ratios, will offer an up-to-date indication of the extent to which the total pension liability is covered by the fiduciary net position of the pension plan. In addition, new information about money-weighted rates of return on pension plan investments will inform financial report users about the effects of market conditions on the pension plan's assets over time and provide information for users to assess the relative success of the pension plan's investment strategy and the relative contribution that investment earnings provide to the pension plan's ability to pay benefits to plan members when they come due. While six different actuarial cost methods are allowed under the current standard, the new standard requires plans to use the entry age normal cost method, with each period's service cost determined as a level percentage of pay. The provisions of this statement are effective for financial statements for periods beginning after June 15, 2013.

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

Management is currently evaluating this statement and has formed a cross-departmental team to lead the implementation for the fiscal year 2013-14 financial statements. Internally, CalSTRS has focused on changes to actuarial calculations for accounting purposes; note disclosures in the basic financial statements; as well as the preparation of additional schedules to include in the financial statements to communicate the plan's NPL, deferred outflows and inflows, pension expense for employers, and employer and State proportionate share of contributions. As CalSTRS develops these items, CalSTRS will pay particular attention on how to present basic financial statement information so readers will understand the difference between NPL, pension expense, and investment performance as calculated for financial reporting purposes and similar calculations needed for the assessment of funding adequacy and investment management. Future actuarial valuations for the Defined Benefit Supplement and Cash Balance Benefit programs will be performed using the entry age normal actuarial cost method, instead of the current traditional unit credit method.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, will improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire NPL and a more comprehensive measure of pension expense. Decision-usefulness and accountability also will be enhanced through new note disclosures and required supplementary information. The comparability of reported pension information also will be improved by the changes related to the attribution method used to determine service cost and the total pension liability, requirements for immediate recognition in pension expense of certain items, and the establishment of standardized expense recognition periods for amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions. The provisions of this statement are effective for financial statements for periods beginning after June 15, 2014. Management is currently evaluating GASB Statement No. 68 and its impact to CalSTRS financial reporting along with assisting the State and school districts in implementing it in their financial statements for fiscal year 2014-15.

Statement No. 69, *Government Combinations and Disposals of Government Operations*, will improve financial reporting by providing clarification on the accounting for these transactions. The provisions of this statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis. Management has evaluated GASB Statement No. 69 and determined this statement does not have an impact on CalSTRS financial reporting.

Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, improves accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. The provisions of this statement are effective for financial statements for reporting beginning after June 15, 2013. Management is currently evaluating GASB Statement No. 70, and if applicable, it will be implemented in the financial statements for fiscal year 2013-14.

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, 2012, except where noted.

Actuarial Valuation Date as of June 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (Funding Excess) (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
State Teachers' Retirement Plan						
Defined Benefit Program						
2013	(1)	(1)	(1)	(1)	(1)	(1)
2012	$144,232	$214,765	$ 70,533	67%	$ 26,404	267%
2011	143,930	207,770	63,840	69%	26,592	240%
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%
Cash Balance Benefit Program						
2013	(1)	(1)	(1)	(1)	(1)	(1)
2012	$ 158	$ 158	$ -	100%	$ 151	0%
2011	151	144	(7)	105%	158	(4%)
2010	114	130	16	88%	163	10%
2009	92	115	23	80%	182	13%
2008	99	98	(1)	101%	181	0%
2007	93	80	(13)	117%	145	(9%)
Defined Benefit Supplement Program (2)						
2013	(1)	(1)	(1)	(1)	(1)	(1)
2012	$ 8,042	$ 7,992	$ (50)	101%	$ 27,407	0%
2011	8,055	7,774	(281)	104%	27,666	(1%)
2010	6,412	7,456	1,044	86%	27,341	4%
2009	5,146	6,599	1,453	78%	28,763	5%
2008	5,636	5,627	(9)	100%	27,118	0%
2007	5,382	4,622	(760)	116%	25,906	(3%)
Teachers' Health Benefits Fund						
Medicare Premium Payment Program						
2013	(4)	(4)	(4)	(4)	(6)	(4)
2012	0.4	582	582	0.1%	(6)	N/A
2011	(4)	(4)	(4)	(4)	(4)	(4)
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	15%
2007 (3)(5)	4	921	917	0.4%	N/A	N/A

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

1) Actuarial valuations as of June 30, 2013, are expected to be available by April 2014.

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, 2011 and 2013.

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.

6) As of June 30, 2012, active members are no longer eligible for future enrollment in the MPP Program. Therefore, the covered payroll is $0 for years 2012 and later.

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYERS & OTHER CONTRIBUTING ENTITIES

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 Contribution (a)	Contributed by Employers [1] [7] (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]					
2013	$ 6,629	$ 2,192	$ 733	$ 2,925	44%
2012	6,230	2,166	689	2,855	46%
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%
Cash Balance Benefit Program [3]					
2013	$ 6.46	$ 6.46	$ -	$ 6.46	100%
2012	5.68	6.02	-	6.02	106%
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%
Defined Benefit Supplement Program [3]					
2013	$ 76	$ 78	$ -	$ 78	103%
2012	42	58	-	58	138%
2011	122	69	-	69	57%
2010	222	145	-	145	65%
2009	121	121	-	121	100%
2008	78	118	-	118	151%
Purchasing Power Protection Program [4] [5]					
2013	$ 595	$ -	$ 595	$ 595	100%
2012	614	1	614	615	100%
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%
Teachers' Health Benefits Fund					
Medicare Premium Payment Program					
2013	$ 38	$ 35	$ -	$ 35	92%
2012 [6]	57	35	-	35	61%
2011	57	36	-	36	63%
2010 [6]	64	32	-	32	50%
2009	62	30	-	30	48%
2008 [6]	58	33	-	33	57%

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.

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) The ARCs for 2008, 2010 and 2012 were based on a roll-forward of figures from the June 30, 2006, June 30, 2008 and June 30, 2010 valuations, respectively.

7) Total employer contributions to the State Teachers’ Retirement Plan exclude $7 million in contributions 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)**

	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 value of net assets
Actuarial Assumptions:		
Investment Rate of Return	7.50%	7.00%
Interest on Accounts	4.50%	7.00%
Wage Growth	3.75%	3.75%
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	24 years
Asset Valuation Method	Fair value of net assets	Fair value of net assets
Actuarial Assumptions:		
Investment Rate of Return	7.50%	4.00%
Interest on Accounts	7.50%	Not applicable
Wage Growth	3.75%	Not applicable
Consumer Price Inflation	3.00%	3.00%
Healthcare Cost Trend Rate Part A Premiums	Not applicable	3.5%
Healthcare Cost Trend Rate Part B Premiums	Not applicable	4.5%

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 Benefits	Teachers' Deferred Compensation	Totals
Personnel Services:						
Salaries and Wages	$ 45,257	$ -	$ -	$ 126	$ 283	$ 45,666
Staff Benefits	22,629	-	-	69	106	22,804
Accrued Leave Expense	179	-	-	(13)	6	172
Accrued Worker's Compensation Expense	68	-	-	-	-	68
Accrued OPEB Expense	10,652	-	-	26	51	10,729
Total Personnel Services	78,785	-	-	208	446	79,439
Operating Expenses and Equipment:						
General	973	-	-	-	13	986
Depreciation	9,930	-	-	-	-	9,930
Printing	942	-	-	-	-	942
Communications	1,127	-	-	-	-	1,127
Postage	462	-	-	-	-	462
Insurance	1	-	-	-	-	1
Travel	320	-	-	1	9	330
Training	491	-	-	-	-	491
Facilities Operations	6,900	-	-	-	-	6,900
Consultants and Professional Services	22,509	754	22	26	82	23,393
Data Processing	5,317	-	-	-	-	5,317
Information Technology	2,496	-	-	-	-	2,496
Indirect State Central Services	6,387	-	-	105	50	6,542
Equipment	64	-	-	-	-	64
Other	240	-	-	-	-	240
Total Operating Expenses and Equipment	58,159	754	22	132	154	59,221
Total	$ 136,944	$ 754	$ 22	$ 340	$ 600	$ 138,660

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

	Contract Start Date	2012-2013
Investment Management Fees		
AGF Investments America, Inc.	3/19/07	677
Allianz Global Investors Capital	5/10/99	240
Artio Global Management, LLC	12/15/06	2,245
Baillie Gifford Overseas, Ltd.	1/15/06	7,959
Batterymarch Financial Management, Inc.	5/11/99	1,617
Bivium Capital Partners, LLC	2/15/08	1,845
BlackRock Financial Management, Inc.	7/1/06	2,046
BlackRock Institutional Trust, N.A.	10/27/98	1,344
Blackrock International, Ltd.	5/12/99	2,532
Blackrock Realty Advisors, Inc.	7/1/99	1,127
Blue Harbour	11/1/11	1,030
Blum Capital Partners	3/1/09	1,468
Capital Guardian Trust Company	5/18/99	1,053
Capital Prospects, LLC	2/15/08	1,019
CBRE Global Investors	7/1/99	6,148
Chicago Equity Partners	11/1/98	664
Credit Suisse Asset Management, LLC	5/11/01	752
Delaware Investment Advisors	11/1/98	3,077
Delphi Management, Inc.	1/1/99	1,099
Denver Investments Advisors, LLC	1/1/99	262
DuPont Capital Management Corporation	10/1/11	760
FDO Partners, LLC	1/1/10	3,334
First Quadrant, LP	11/1/98	1,409
FIS Group, Inc.	2/27/04	1,826
Generation Investment Management	3/19/07	6,962
Goldman Sachs Asset Management	1/1/06	198
Governance For Owners	6/1/08	694
Heitman Captial Management, LLC	7/1/99	2,354
ING Clarion Partners	7/1/99	1,045
Knight Vinke	3/1/10	787
Lazard Asset Management, LLC	5/18/99	10,410
Leading Edge Investment Advisors, LLC	2/15/08	1,547
Lee Overlay Partners, Ltd.	10/15/09	4,291
Light Green Advisors	4/30/07	229
LM Capital Group, LLC	12/19/06	836
Mellon Capital Management Corp.	1/27/13	80
Mesirow Financial Administrative	12/1/10	1,484
Millennium Global Investments, Ltd.	7/1/10	2,850
Mondrian Investment Partners, Ltd.	5/13/99	1,839
Morgan Stanley Investment Management, Inc	5/18/99	1,940
NCM Capital Management Group Inc.	10/30/98	100
Neuberger Berman, LLC	10/1/10	40
New Amsterdam Partners, LLC	3/19/07	308
Northern Trust Global Advisors, Inc.	1/23/04	1,869
Oechsle International Advisors, LLC	5/19/99	718
Post Advisory Group, LLC	1/31/02	1,605
Principal Global Investors	2/15/02	6,986
Progress Investment Management	2/15/08	1,910
Pyramis Global Advisors Trust Co.	2/1/00	546
Relational Investors	7/1/04	6,698
Sasco Capital, Inc.	10/30/98	2,656
Silvercrest Asset Management	7/1/11	661
State Street Global Advisors	10/15/98	2,241
Sterling Capital Management, LLC	3/11/04	439
T. Rowe Price Associates, Inc.	1/15/06	3,950
TCW Asset Management Co.	12/15/98	108
Templeton Asset Management, Ltd.	1/15/06	5,279
Thomas Properties Group, LLC	11/15/99	617
Trian Partners	4/11/11	2,916
UBS Global Asset Management (Americas)	10/1/98	301
Western Asset Management Co.	10/30/06	2,959
Total Investment Management Fees		$ 125,986

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

	Contract Start Date	2012-2013
Advisors and Consultants		
Altius Associates, Ltd.	6/1/08	624
Altura Capital Group, LLC	1/1/12	137
Bard Consulting, LLC	9/20/07	747
Cambridge Associates, LLC	6/1/08	3,745
Capital Hotel Management, LLC	9/20/07	221
Courtland Partners, Ltd.	9/20/07	46
David L. Bonuccelli & Associates, Inc.	9/20/07	950
Gray & Company(DBA)	1/1/12	70
Hewitt Ennisknupp, Inc.	7/15/11	41
Lyxor Asset Management, Inc.	8/1/11	424
Meketa Investment Group, Inc.	1/1/12	38
Nelson & Bernstein, LLC	12/1/09	137
Pension Consulting Alliance, Inc.	3/1/01	1,153
The Townsend Group, Inc.	3/1/08	281
Valuation Research Corporation	9/20/07	95
Total Advisors and Consultants		$ 8,709
External Services-Legal and Attorney Fee:		
Bingham Mccutchen, LLP	4/1/11	227
Covington & Burling, LLP	4/20/11	99
Cox, Castle & Nicholson, LLP	1/23/13	466
Freshfields Bruckhaus Deringer	5/1/12	106
Girard Gibbs, LLP	7/1/11	21
Grant & Eisenhofer	9/1/10	30
Groom Law Group, Chartered	7/1/12	314
Ice Miller, LLP	3/1/12	10
Manatt, Phelps & Phillips, LLP	6/27/11	180
Morgan, Lewis & Bockius, LLP	12/9/10	72
Nossaman, LLP	8/1/10	28
Pepper Hamilton, LLP	4/1/11	33
Sheppard Mullin Richter & Hampton, LLP	4/5/10	53
Miscellaneous	9/1/10	2
Total External Services-Legal and Attorney Fee:		$ 1,641
Master Custodian		
State Street Bank & Trust Co	7/1/01	10,603
Total Master Custodian		$ 10,603

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

	Contract Start Date	2012-2013
Research and Rating Services:		
Capital IQ	6/1/12	22
CEM Benchmarking, Inc.	7/1/12	25
Covenant Review, LLC	1/1/13	45
Creditsights, Inc.	12/30/12	24
Equilar, Inc.	7/1/12	40
Evestment Alliance, LLC	8/1/11	28
Factiva, Inc.	1/1/12	30
First Rain, Inc.	7/1/12	40
Fitch Information, Inc.	1/1/12	20
Fitch Solutions, Inc.	1/1/13	57
Glass Lewis & Co., LLC	6/1/10	269
GMI Ratings (DBA)	7/1/12	86
GNA Services, LLC	1/1/13	23
Idealswork DBA IW Financial	7/1/12	31
Institutional Shareholder Services	7/1/12	366
International Strategy & Investment	1/1/12	102
Investor Communications Network,	1/1/13	18
KDP Investment Advisors, Inc.	10/1/11	37
Moody's Investors Service	1/1/11	287
Morningstar, Inc.	1/1/13	45
MSCI, Inc.	1/1/11	111
Property & Portfolio Research, Inc.	1/1/11	103
Real Estate Research Corporation	9/20/07	132
Russell Investment Group	7/1/12	40
SS&C Technologies, Inc.	5/1/12	22
Standard & Poor's	11/1/08	372
Strategas Securities, LLC	1/1/13	50
Sustainable Investments	7/1/12	26
Thomson Reuters Markets, LLC	1/1/13	162
Trepp, LLC	1/1/10	50
Trucost PLC	7/1/12	50
University Of Toronto	12/1/12	25
Miscellaneous	N/A	26
Total Research and Rating Services:		$ 2,764
Risk Management Systems:		
Barclays Capital, Inc.	7/1/12	225
Barra, Inc.	1/1/11	35
BlackRock Financial Management, Inc.	7/1/06	3,649
FactSet Research System, Inc.	7/1/12	405
Zephyr Associates, Inc.	1/12/12	24
Total Risk Management Systems:		$ 4,338
Trading Systems		
Bloomberg, LP	9/6/12	765
DTCC Solutions, LLC	11/1/12	20
Intex Solutions, Inc.	9/1/11	138
Market Axess Corporation	10/1/12	27
Markit N.America, Inc. / Markit Group	7/15/12	45
Omgeo, LLC	11/1/09	17
Miscellaneous	N/A	9
Total Trading Systems		$ 1,021

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

Operating Expenses:		
Administrative Costs		13,011
Alliant Insurance Services		773
American Express		39
Council of Institutional Investors		30
EFL Associates		18
Miscellaneous		26
Total Operating Expenses:	$	13,897
Subtotal	$	168,959
Other Investment Expenses:		
Foreign Tax Withheld		24,971
Real Estate		114,067
Miscellaneous		2,492
Total Other Investment Expenses:	$	141,530
Total	$	310,489

SCHEDULE OF CONSULTANT & PROFESSIONAL SERVICES EXPENSES

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

State Teachers' Retirement Plan

Consultant and Professional Services:	Commission/Fee	Nature of Services
Fresno County Office of Education		
Humboldt County Office of Education		
Kern County Superintendent of Schools		
Monterey County Office of Education		
Orange County Department of Education		
Placer County Office of Education		
San Bernardino County Office of Education		
San Diego County Office of Education		
San Joaquin County Office of Education		
San Jose Unified School District		
San Mateo-Foster City School District		
Santa Barbara County Education Office		
Santa Cruz County Office of Education		
Shasta County Office of Education		
Solano County Office of Education		
Stanislaus County Office of Education		
Tulare County Office of Education		
Ventura County Office of Education		
Yuba County Office of Education		
	$ 1,850	Regional Counseling Services
Berman Devalerio		
California Reporting, LLC		
Department of Justice		
Diamond Court Reporters		
Dickstein Shapiro, LLP		
Hogan Lovells US, LLP		
Manatt, Phelps & Phillips, LLP		
Murphy Austin Adams Schoenfeld, LLP		
Olson Hagel & Fishburn, LLP		
Reed Smith, LLP		
Shaw Valenza, LLP		
	740	Legal Services
Clifton Larson Allen, LLP		
Crowe Horwath LLP		
Macias, Gini & O'Connell, LLP		
	1,165	Auditing Services
Milliman		
	421	Actuarial Services
Accuity, Inc.		
Allegiance, Inc.		
Angus-Hamer, Inc.		
Audio Fidelity Communications		
Background Profiles, Inc.		
Burton Group Services		
Business Advantage		
Bwise Guys, LLC		
Cal Gov Technology		
Capio Group		
Capture Technologies, Inc.		

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

State Teachers' Retirement Plan ***(continued)***

Consultant and Professional Services:	Commission/Fee	Nature of Services
Ciber, Inc.		
Crusade		
Daniel J. Edelman, Inc.		
Department of General Services		
Department of Human Resources		
Department of Public Health		
Digital Deployment, Inc.		
Dr. Robert Yetman		
DSG Group, Inc.		
Echopass Corporation		
Employment Development Department		
En Pointe Technologies Sales, Inc.		
Enterprising Service Provider, LLC		
Evolve Technology Group		
Examworks, Inc.		
Forward Solutions		
Gartner, Inc.		
Global Governance Advisors, LLC		
Goldlink Pacific, Inc.		
Grant Thornton, LLP		
Harelene Graphics		
Hewitt EnnisKnupp, Inc.		
Infiniti Consulting Group, Inc.		
Info Tech Software Professional, Inc.		
Integratech, Inc.		
International Network		
Jaykumar Maistry		
Kent Lacin Media Services, LLC		
L.R. Wechler, Ltd.		
Lexis Nexis Div of Reed Elsvr		
Mara Consulting, Inc.		
McLagan Partners, Inc.		
Menlo Technologies, Inc.		
Metavista Consulting Group		
Montridge Consulting		
MSLA, A Medical Corporation		
Office of the State Chief Information Officer		
Pinnacle Consulting		
Propose, LLC		
Providence Technology Group		
Quest Media & Supplies, Inc.		
Sacramento County Sheriff's Department		
Sacramento IT Consulting, LLC		
Sierra Metrics, Inc.		
Staff Tech, Inc.		
State Controller's Office		
State Personnel Board		
Thomas V. Ennis Consulting		
Thomas/Ferrous, Inc.		
University Enterprises, Inc.		
	18,333	Consulting Services
Total Consultant and Professional Services	$ 22,509	

SCHEDULE OF CONSULTANT & PROFESSIONAL SERVICES EXPENSES

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

IRC 403(b) Plan

Consultant and Professional Services:	Commission/Fee	Nature of Services
TIAA-CREF	$ 754	Administrative Services
Total Consultant and Professional Services	$ 754	

IRC 457 Plan

Consultant and Professional Services:	Commission/Fee	Nature of Services
TIAA-CREF	$ 22	Administrative Services
Total Consultant and Professional Services	$ 22	

Teacher's Health Benefits

Consultant and Professional Services:	Commission/Fee	Nature of Services
State Controller's Office University Enterprises, Inc.	$ 26	Consulting Services
Total Consultant and Professional Services	$ 26	

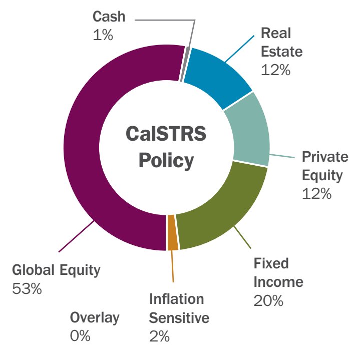
Teacher's Deferred Compensation

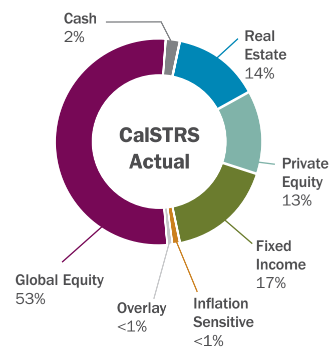
Consultant and Professional Services:	Commission/Fee	Nature of Services
Meridian Fiduciary Consulting Meridian Wealth Management State Controller's Office Volt Services Group	$ 82	Consulting Services
Total Consultant and Professional Services	$ 82	

INVESTMENTS

Tables

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

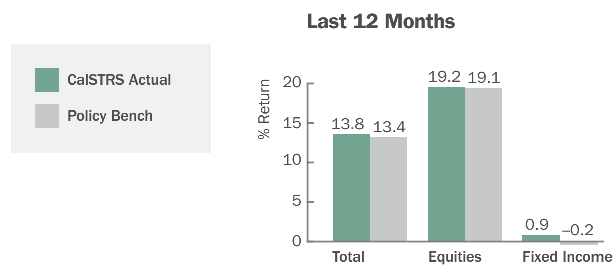


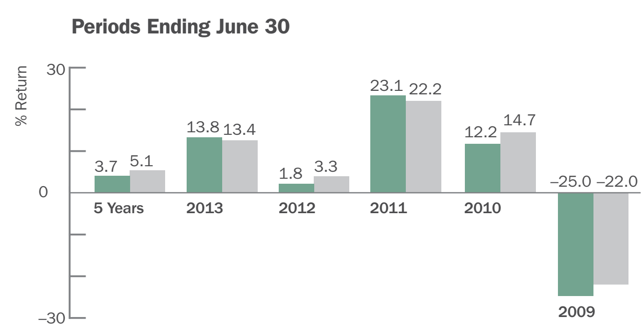


The CalSTRS investment portfolio increased by $15.2 billion over the past twelve months, ending with a value of $165.8 billion on June 30, 2013. As highlighted below, the CalSTRS portfolio is broadly diversified, holding investments ranging from publicly traded short-term bonds to privately held partnerships. 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 2012–2013 fiscal year as adopted by the Board effective July 2012 (see left pie chart). The portfolio's actual allocation is slightly different from policy. As of 6/30/2013, the Private Equity, Real Estate, Cash, and Overlay asset classes were modestly overweighted, while the Fixed Income and Inflation Sensitive asset classes were slightly underweighted (see right pie chart).





Investment Results

Over the last year, the CalSTRS investment portfolio produced an absolute return of 13.8 percent, 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 40[2] basis points. Relative outperformance by the Global Equity, Fixed Income, and Real Estate asset classes contributed to this result.

During the last three years, CalSTRS' portfolio generated a 12.6 percent average annual return, underperforming the policy benchmark by 10 basis points, but ranking in the first quartile among peer funds. The marginal underperformance over this time period can be attributed to the Private Equity asset class. Over the last five years, the CalSTRS investment portfolio produced an average annual return of 3.7 percent, trailing its policy benchmark by 1.4 percent per year (bottom bar chart). These results are primarily below CalSTRS' actuarial rate of return. Successive one-year periods are presented here as well. CalSTRS' portfolio has outperformed its policy benchmark in two 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.

INVESTMENTS

Investments and the related returns for the CalSTRS Investment Portfolio are presented differently within the Investments and Financial sections of the CAFR. On the preceding pages, in news releases, and on the Internet, the investment and related returns are presented using common industry practices that reflect the way in which CalSTRS manages its investment portfolio. The presentation based on industry practices provides timely information that is easily compared to benchmarks and peer results. Within the Financial section, the same information is reported in accordance with generally accepted accounting principles. The primary difference between the presentations is in the way investments are categorized. Additional differences result from the timing of recognition of performance for long-term investments in the portfolio. In accordance with industry practices, private asset performance is reported with a quarter lag, while for financial reporting purposes, adjustments are made to bring results current through fiscal year end.

As shown on Table 3, performance information in the CAFR is reported as gross returns and is calculated using a time-weighted return methodology. You will find current investment portfolio information at CalSTRS.com/investments. The investments information on the CalSTRS website is reported consistent with investment industry standards and is comparable to the global financial markets and other pension plans and institutional investors.

The returns for fiscal year 2012—13 were very strong considering the U.S. government fiscal cliff and European banking problems. The returns of 13.80 percent for the fiscal year and 12.57 percent for the three years ending June 30, 2013, were well above the actuarial assumed rate. CalSTRS' returns over the one- and three-year periods ranked in the top quartile of the U.S. public pension plans and ranked even higher among large multibillion portfolios. This is a testament to the CalSTRS Investment Committee and Investment staff's ability to help rebound from the global financial meltdown of 2008.

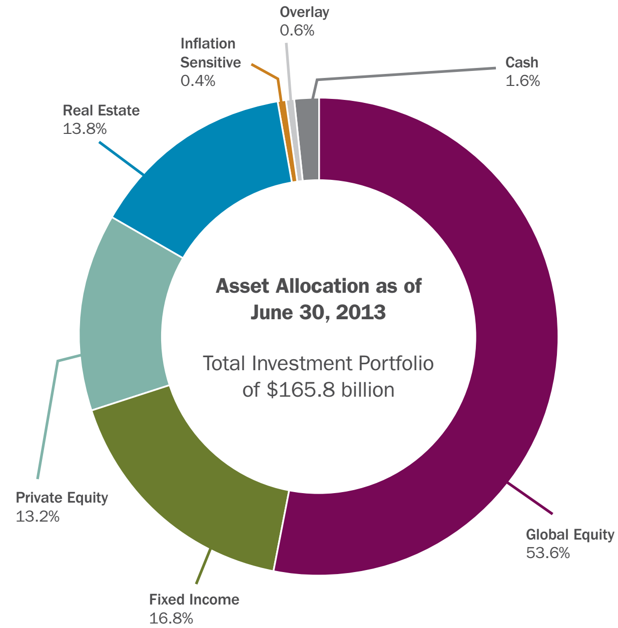
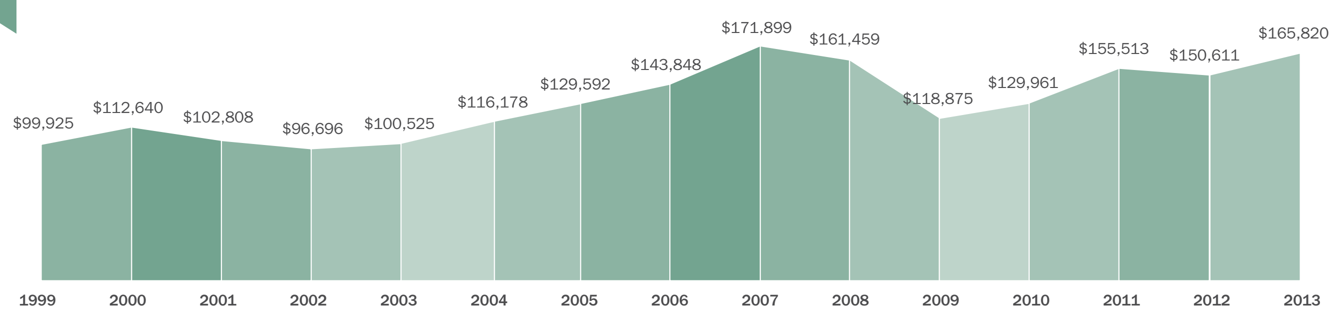


Table 1 Market Value of Investments (dollars in millions)



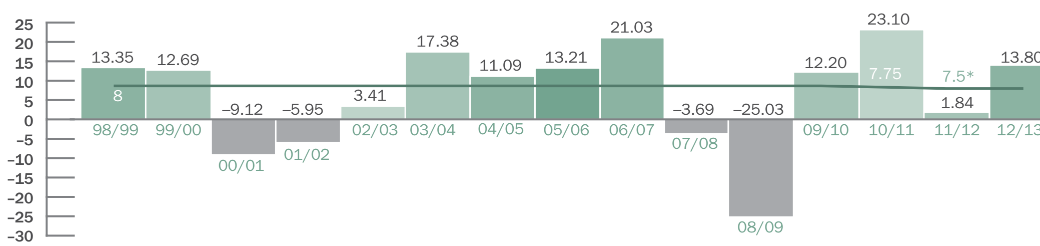
Portfolio values and performance results may vary from information presented in the Basic Financial Statements due to rounding, portfolio management requirements and Generally Accepted Accounting Principles.

INVESTMENTS

The U.S. and Europe are going through a multiyear deleveraging after the first decade of the 2000s. Corporations deleveraged fairly quickly after the 2008 meltdown, but individual households and government entities are taking three to five years. This has resulted in a very slow anemic economy, which in turn, holds down the global financial markets and limits investment returns for long-term investors like CalSTRS.

While this annual report provides a significant amount of information regarding the CalSTRS Investment Portfolio, it only represents one point in time—June 30, 2013. It is difficult to compare this time measurement to the movement and complexity of the investment portfolio in this highly dynamic global financial market. As previously mentioned, you will find current information on CalSTRS investment objectives, policies and other investment related topics at CalSTRS.com.

Table 2 Annual Performance Returns (percent)



*In February 2012 the Board adopted the actuarial rate of 7.5 percent as of June 30, 2011

Table 3 Time-Weighted Performance Returns for Major Asset Categories

Portfolio Type/Associated Indicies	1 Yr	3 Yr	5 Yr	10 Yr
Total Fund	13.80%	12.57%	3.72%	7.53%
Global Equity	**19.18**	**15.07**	**4.60**	**8.23**
Global Equity Custom[1]	19.12	14.92	4.46	8.07
U.S. Equity	**21.84**	**18.52**	**7.04**	**7.75**
Russell 3000	21.75	18.50	7.10	7.66
Non-U.S. Equity	**14.34**	**8.30**	**(0.18)**	**8.96**
MSCI All Country World Index ex-U.S.	13.77	7.83	(0.94)	8.68
MSCI Europe, Australia, Far East & Canada	17.27	9.26	(0.98)	7.67
MSCI Emerging Market	2.88	3.27	(0.57)	13.73
Fixed Income	**0.92**	**4.52**	**6.03**	**5.00**
U.S. Debt Custom[2]	(0.20)	3.86	5.51	4.72
Barclays Capital U.S. Aggregate	(0.69)	3.51	5.19	4.52
Barclays Capital High Yield Cash Pay	9.46	10.71	11.00	8.94
Real Estate	**14.13**	**13.55**	**(6.09)**	**7.26**
Real Estate NCRIEF (lagged 1 quarter)	10.52	13.30	2.32	8.55
Private Equity	**13.94**	**13.91**	**5.41**	**14.76**
Private Equity Custom (lagged 1 quarter)[3]	17.99	16.13	9.62	9.18
Inflation Sensitive	**2.19**	**6.80**	**—**	**—**
Inflation Sensitive Custom[4]	4.02	7.83	—	—
Barclays Global Inflation Linked	(1.05)	6.05	2.46	5.71
Infrastructure Custom Index[5]	6.83	7.43	6.38	7.47
Overlay[6]	**0.27**	**0.03**	**—**	**—**
Overlay Custom[7]	1.13	—	—	—
Liquidity[8]	**2.00**	**6.15**	**(0.52)**	**3.77**
Barclays Capital 3-Month Treasury Bill[9]	0.13	0.13	0.32	1.74

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. Footnote 1 and 3 effective 05/01/2013, benchmarks are firearm free.

(1) Weighted blend of Russell 3000 tobacco and firearm free combined with the MSCI All Country World Index (ex-U.S.) tobacco and firearm free.
(2) 95% Barclays Capital U.S. Aggregate tobacco free + 5% U.S. High Yield Cash Pay 2% Issuer Constrained Index tobacco free. Previously LB U.S. Aggregate tobacco free through 03/31/2007.
(3) Blend of the Russell 3000 + 3% tobacco and firearm free & State Street Private Equity Index cumulative pooled internal rate of return data weighted by sub-asset type; Previously Russell 3000 + 5% + Barclays Capital 3-Month Treasury Bill from 04/01/1999 through 09/30/2008.
(4) Weighted blend of Barclay's Global Inflation Linked and Infrastructure Index effective 07/01/2012.
(5) Consumer Price Index (CPI) + 5%
(6) Overlay asset class was approved by the Board in April 2012. A portion of assets in this program have been held by CalSTRS more than three years.
(7) Barclays Capital 3-Month Treasury Bill plus 1%. Benchmark approved by the Board in April 2012; returns not available for 3,5,10 year periods.
(8) Includes the Securities Lending Program loss incurred in FY 2008–2009 and income earned in subsequent years.
(9) Barclays Capital 3-Month Treasury Bill. Previously Citigroup 3-Month Treasury Bill prior to 07/01/2006

Overlay

The Overlay asset class was approved by the board in April 2012, and consists of three separate areas: Innovation, Overlay and Stable Return.

Innovation and Risk (Innovation)

The Innovation portfolio, managed by the Innovation and Risk unit, is a subset of the Overlay asset class with a long-range target not to exceed the lesser of 1.5 percent of the total plan assets or $2 billion. As of June 30, 2013, the Innovation portfolio had total assets of $632.6 million. The Innovation Portfolio Policy was approved in March 2009 with the primary goal to identify, research and incubate investment opportunities that the fund does not currently use. Each new strategy 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. The Innovation portfolio returned 7.91 percent, outperforming its policy benchmark by 378 basis points (7.91 vs. 4.13 percent) for the fiscal year ending June 30, 2013. For more detailed information on the type and commitment size of strategies being incubated, refer to the Innovation & Risk – Quarterly Activity Reports in the Investments section of the CalSTRS website. In addition, the unit is building a fund-wide risk management process. This new framework will help CalSTRS monitor risk factors driving performance of the investment portfolio. The framework will help improve CalSTRS' investment process and provide tools to lessen the impact of a severe macroeconomic or market event.

Currency Management Program (Overlay)

The Currency Management Program, managed by the Fixed Income unit, is designed to address the global nature of all the fund's assets and attempts to add value on a fund-wide basis. The currency markets are some of the most liquid and volatile markets within which CalSTRS operates. The internally managed Core strategy performance was flat for the year while the Opportunistic external strategy added 87 basis points in value for the year. Some of this outperformance can be attributed to the managers taking advantage of a nearly 20 percent depreciation in the yen relative to the U.S. dollar over the fiscal year. Since inception, the Currency Management Program has added 58 basis points to the fund's value.

Home Loan Program (Stable Return)

The CalSTRS Home Loan Program, managed by the Investments Executive unit, was established by legislation in 1984 and provides the opportunity for home ownership to qualified participants, while meeting CalSTRS' investment goals by generating a mortgage asset. Mortgage originations were temporarily suspended on October 1, 2011. As of June 30, 2013, the Home Loan Program had total assets of $392.5 million.

Credit Enhancement (Stable Return)

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, 2013, the Credit Enhancement Program had commitments of approximately $1.5 billion and fee income earned during the fiscal year was approximately $11.8 million.

Inflation Sensitive

At the end of fiscal year 2012–13, the $710.4 million Inflation Sensitive portfolio represented 0.4 percent of the total fund with a short-term allocation goal of 2 percent. Global Inflation Protection Securities (Linkers) make up 42 percent of this asset class with the balance consisting of Infrastructure. The long-term allocation target for the Inflation Sensitive portfolio is 6 percent evenly allocated between Linkers and Infrastructure.

The Inflation Sensitive portfolio returned 2.19 percent for the fiscal year ending June 30, 2013. The Linkers portfolio had a negative return of –0.97 percent, which slightly outperformed its benchmark by 8 basis points. The Infrastructure portfolio, which holds its assets in limited partnership structures, returned –2.64 percent. This portfolio was very sensitive to cash flows and asset allocations made over the course of the year and even though the two components had negative returns for the year, in aggregate, the portfolio produced a positive return due to the variable change in weighted market value of the components during this period. Short-term results for the Infrastructure portion of this portfolio are not particularly significant, as performance expectations will be better measured over the long term as investments mature and achieve their full cash flow potential. Therefore, performance over a three- to five-year time period is a more appropriate measure of performance. Since the first infrastructure investment was made in April 2011, three- to five-year returns are not available. For more information about the Inflation Sensitive portfolio, visit CalSTRS.com/investments.

Fixed Income

At June 30, 2013, the Fixed Income portfolio had total assets of $27.8 billion representing 16.8 percent of the total fund. The Fixed Income unit operates a hybrid model portfolio that takes advantage of the benefits and efficiencies of both internal and external asset management. Eighty-three percent of the portfolio's assets are managed by internal staff in a core style with a moderate level of risk. The remaining 17 percent is managed by external managers with a higher level of risk and therefore a higher level of expected return. The Fixed Income portfolio outperformed its benchmark by 112 basis points (.92 percent vs. –.20 percent). The three, five, and 10-year returns were positive and have outperformed the benchmark by 66, 52 and 28 basis points, respectively. For further information, see the Fixed Income Quarterly Activity Report at CalSTRS.com/investments.

The Fixed Income unit manages two additional programs: Currency Management, which is discussed in the Overlay section, and Securities Lending discussed here.

Securities Lending Program

The Securities Lending Program is a low-risk strategy that allows the fund to use its existing asset base and lending expertise to generate additional income. Over the past year, demand to borrow "specials"—individual securities with larger spreads—continued to rise and was a large contributor to earnings for the period. However, as interest rates declined, cash collateral yields also fell during the fiscal year causing a decline in reinvestment opportunities. In addition, higher yielding securities matured and were reinvested at lower short-term interest rates. All of these factors led to lower reinvestment rates and lower overall securities lending returns. For the fiscal year ended June 30, 2013, the Securities Lending Program earned approximately $100.3 million in additional net income for the fund. For additional information on the Securities Lending Program, see the Fixed Income – Securities Lending Program 2012 Annual Report available at CalSTRS.com under Teachers' Retirement Board: Public Meeting Notices and Agendas, June 2013.

Table 4 **Largest Fixed Income Holdings as of June 30, 2013**
(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	3/31/16	2.375%	380,000,000	$398,597,189	$398,288,141	$309,048
US TREASURY N/B	4/30/15	0.125	378,000,000	376,559,831	377,130,391	(570,560)
US TREASURY N/B	5/31/14	2.250	335,000,000	341,283,774	336,918,408	4,365,366
US TREASURY N/B	5/15/16	0.250	333,730,000	330,175,769	332,378,683	(2,202,914)
US TREASURY N/B	1/31/20	1.375	320,000,000	311,065,600	320,743,841	(9,678,241)
US TREASURY N/B	2/28/17	3.000	245,000,000	263,223,110	254,968,404	8,254,706
US TREASURY N/B	12/31/14	2.625	250,000,000	258,867,492	260,371,093	(1,503,601)
US TREASURY N/B	5/15/23	1.750	267,260,000	250,243,564	262,696,799	(12,453,235)
US TREASURY N/B	11/15/40	4.250	185,000,000	212,583,507	182,871,873	29,711,634
US TREASURY N/B	7/15/14	0.625	200,000,000	200,863,998	200,181,028	682,970

INVESTMENTS

Private Equity

The Private Equity portfolio ended the June 30, 2013, fiscal year with a market value of $21.9 billion or 13.2 percent of the total fund. The portfolio consists of investments in limited partnerships that account for 94 percent of the allocation with the remaining assets consisting of co-investments.

Private equity is a long-term asset class with performance results influenced by various factors. As shown on Table 3, performance for the period ended June 30, 2013 was mid-single digit returns for the five-year time period and double digit returns for the one, three and 10-year periods. The program underperformed its benchmark for the one, three and five-year periods but significantly outperformed its benchmark for the 10-year period.

This mixed performance pattern relative to the program benchmark (for the shorter time periods) is attributable to several factors including: 1) a benchmark that is tied to the volatile public markets; 2) an over-concentration of limited partnership investments in the pre-financial crisis vintage years (2006–2008); and 3) continuing slow economic growth throughout much of the world.

For current information on the CalSTRS Private Equity portfolio, see the Private Equity business plan, quarterly and semiannual reports at CalSTRS.com/investments.

Real Estate

The Real Estate portfolio ended the fiscal year 2012-13 with a market value of $22.9 billion or 13.8 percent of the total fund. The portfolio holds real estate investments in limited partnership funds, joint ventures, separate accounts, and other investments which account for 45.7 percent, 37.6 percent, and 14.8 percent, respectively. Over the last three years, staff has emphasized an increase in joint ventures and separate accounts in order to increase control and lower fees. In addition, staff has emphasized an increase in investments in core assets over higher risk strategies.

Real Estate is a long-term asset with performance results influenced by various factors. As shown on Table 3, performance for the period ending June 30, 2013 has been very strong over the one and three year periods and has exceeded its benchmark. The positive returns are due to the general recovery of the real estate markets. The outperformance over the benchmark can be attributed to: 1) improved performance of value add assets, predominantly apartments: 2) higher leverage in the portfolio than the benchmark; and 3) high returns on recent investments that were purchased at distressed pricing. The suboptimal performance relative to the program benchmark in the five and 10-year period is attributable to other factors including: 1) a low-risk benchmark that is based on unleveraged core real estate that has outperformed higher risk investments; 2) an over-concentration of higher risk limited partnership investments in the pre-financial crisis vintage years between 2005–2008; and 3) high leverage on the underlying assets.

For current information on the CalSTRS Real Estate portfolio, see the Real Estate business plan, as well as the quarterly and semiannual reports, at CalSTRS.com/investments.

INVESTMENTS

Global Equity

At the end of fiscal year 2012–13, the $88.8 billion Global Equity portfolio represented 53.6 percent of the total fund. U.S. Equity accounted for 68 percent of the total equity allocation, while Non-U.S. Equity accounted for the remaining 32 percent.

The Global Equity portfolio returned 19.18 percent, outperforming its policy benchmark by 6 basis points (19.18 vs. 19.12 percent) for the fiscal year ending June 30, 2013. The relative outperformance was driven by the U.S. equity portfolio, which outperformed the Russell 3000 ex-tobacco ex-firearm Index by 9 basis points (21.84 percent vs. 21.75 percent). The Non-U.S. equity portfolio had a positive relative return, outperforming the MSCI ACWI ex-U.S. ex-tobacco ex firearm Index by 57 basis points (14.34 percent vs. 13.77 percent). For more information about the Global Equity portfolio, see the comprehensive Quarterly Investment Reports at CalSTRS.com/investments.

During fiscal year 2012–13, the Global Equity team focused on two key initiatives: 1) staff fully implemented a new trade and risk management system, Aladdin. This system automates trade order management, compliance, accounting and risk management oversight; 2) staff continues to carefully evaluate current and potential investment managers. Through this process, assets are rebalanced between investment managers to maximize the risk-adjusted return of the Global Equity portfolio.

Corporate Governance

During fiscal year 2012–13, CalSTRS staff voted on 66,670 proxy proposals submitted by 6,441 corporations that were held in the portfolio. The 66,670 proposals represented a 0.66 percent decrease from the 67,113 proposals voted on in 2011–12.

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: 18,444
- Voted for: 12,220 (66 percent)
- Voted against: 6,224 (34 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).

Table 5 **Largest Equity Holdings as of June 30, 2013**
(CalSTRS maintains a complete list of portfolio holdings)

Issue	Shares	Market Value	Average Cost	Unrealized Gain (Loss)
EXXON MOBIL CORP	12,734,223	$1,150,537,048	$980,471,837	$170,065,211
APPLE INC	2,805,408	1,111,166,001	1,316,346,518	(205,180,517)
MICROSOFT CORP	25,588,150	883,558,820	746,272,305	137,286,515
JOHNSON + JOHNSON	8,684,573	745,657,438	553,749,594	191,907,844
CHEVRON CORP	6,256,667	740,413,973	595,722,415	144,691,558
GOOGLE INC CL A	809,807	712,929,789	496,923,259	216,006,530
GENERAL ELECTRIC CO	28,825,921	668,473,108	553,716,631	114,756,477
AT+T INC	17,614,379	623,549,017	561,419,730	62,129,287
INTL BUSINESS MACHINES CORP	3,218,516	615,090,593	578,308,568	36,782,025
PFIZER INC	21,762,523	609,568,269	490,256,680	119,311,589

- Number voted: 2,954
- Voted for: 2,677 (91 percent)
- Voted against: 277 (9 percent)

3. Compensation Plans (Stock Option Plans, Employee Stock Purchase Plans, etc.):

Companies provide a variety of compensation plans for executives, employees and nonemployee 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 Executive Compensation Model Guidelines.

- Number voted: 1,320
- Voted for: 1,079 (82 percent)
- Voted against: 241 (18 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: 2,494
- Voted for: 2,144 (86 percent)
- Voted against: 350 (14 percent)

5. Approve Merger/Acquisition—Management:

CalSTRS evaluates mergers and acquisitions on a case-by-case basis using a total portfolio view.

- Number voted: 151
- Voted for: 145 (96 percent)
- Voted against: 6 (4 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: 806
- Voted for: 606 (75 percent)
- Voted against: 200 (25 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: 481
- Voted for: 246 (51 percent)
- Voted against: 235 (49 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, shareholders can choose to vote every one-, two- or three-years. CalSTRS routinely supports annual say-on-pay votes.

- Number voted: 182
- One-year: 182 (100 percent)
- Two-year: 0
- Three-year: 0

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 chair, eliminating poison pills; tying compensation plans to company performance; and requiring shareholder approval for large severance packages.

- Number voted: 502
- Voted for: 359 (72 percent)
- Voted against: 143 (28 percent)

The Corporate Governance unit continues to manage eight governance funds, accounting for a combined $3.5 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, 2013, the Corporate Governance funds returned 28.33 percent.

INVESTMENTS

Cash Balance Benefit Program

The Cash Balance Benefit Program contributions were invested into pooled funds from inception in February 1997 through June 2001. Sixty percent of the contributions were allocated to the S&P 500 Portfolio and 40 percent to the Government Index Portfolio. Beginning July 2001, the program's contributions are invested in the California Teachers' Retirement Fund, excluding Private Equity and Real Estate investments. As of June 30, 2013, the market value was $188.5 million and the rate of return for the Cash Balance Benefit Program for the fiscal year was 13.90 percent.

Defined Benefit Supplemental Program

The Defined Benefit Supplement Program contributions were invested in the California Teachers' Retirement Fund, excluding Private Equity and Real Estate investments from January 2001 through June 2011. Beginning July 2011, the program's contributions were invested in the California Teachers Retirement total fund. As of June 30, 2013, the market value was $8.9 billion and the rate of return for the Defined Benefit Supplement Program for the fiscal year was 13.80 percent.

For further information on the Cash Balance Benefit Program or the Defined Benefit Supplement Program, see the supplemental program information at CalSTRS.com.

Table 6 Investment Summary for the Current and Previous Fiscal Year

(dollars in millions)

	June 30, 2012		June 30, 2013			
Portfolio Type	**Book Value**	**Net Asset Value**	**Book Value**	**Net Asset Value**	**% of Net Asset Value**	**Net Value Change**
Global Equity	$71,613	$75,058	$75,430	$88,769	53.6%	$13,711
Fixed Income	26,677	27,564	27,791	27,813	16.8%	249
Private Equity	22,347	22,589	21,647	21,878	13.2%	(711)
Real Estate	27,890	21,771	27,119	22,918	13.8%	1,147
Inflation Sensitive	308	315	697	710	0.4%	395
Overlay	580	618	982	1,037	0.6%	419
Cash	2,696	2,696	2,694	2,695	1.6%	(1)
Portfolio Total	**$152,111**	**$150,611**	**$156,360**	**$165,820**	**100%**	**$15,209**
Adjustments:[1]						
Securities Lending Collateral		23,690		23,216		
Accruals		1,674		1,693		
Cash & Cash Equiv		(1633)		(1,827)		
STRS PLAN ASSETS-INVESTMENTS		**$174,342**		**$188,902**		

INVESTMENTS

Table 7 Schedule of Investment Expenses

July 1, 2012 through June 30, 2013 (dollars in thousands)

Investment Categories	Net Asset Value	Investment Expenses	Basis Points
Global Equity	$88,769,365	$102,896	11.6
Fixed Income	27,812,881	16,509	5.9
Private Equity	21,878,435	9,315	4.3
Real Estate	22,918,187	26,947	11.8
Inflation Sensitive	710,426	140	2.0
Overlay	1,036,737	12,593	**
Cash	2,694,868	559	2.1
Total Assets And Expenses	**$165,820,899**	**$168,959**	**10.2**

* Investment Expenses reflected in this table generally represent direct costs associated with investing. Certain indirect costs related to private assets, such as carried interest and management fees, are included on a best efforts basis and are not comprehensive.

**Overlay includes the Currency Management Program (CMP) which calculates basis points using notional values instead of net asset values.

Table 8 Global Equity Broker Commissions July 1, 2012 Through June 30, 2013

Broker Name	Commission	Shares	Commission Per Share
JP Morgan	$2,858,725	379,434,168	$0.008
Citigroup	2,174,791	435,231,694	0.005
UBS AG	1,844,904	307,602,215	0.006
Credit Suisse First Boston	1,649,276	200,859,872	0.008
Merrill Lynch	1,647,885	163,184,101	0.010
Goldman Sachs	1,319,279	176,968,248	0.007
State Street Bank and Trust Company	1,196,218	168,038,312	0.007
Deutsche Bank	1,035,335	160,910,140	0.006
Instinet	962,622	79,214,926	0.012
Barclays Capital	884,160	80,826,421	0.011
Other Brokers	9,087,723	820,646,324	0.013
TOTAL COMMISSIONS	**$24,660,918**	**2,972,916,421**	**$0.008**

ACTUARIAL

Defined Benefit Program

Defined Benefit Supplement Program

ACTUARIAL (CONTINUED)

Cash Balance Benefit Program

Medicare Premium Payment Program

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November 22, 2013

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, 2010	71%
June 30, 2011	69%
June 30, 2012	67%

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, 2012 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 2013 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, 2012 actuarial valuation report.

It should be noted that the Actuarial Obligation (also referred to as the Actuarial Accrued Liability) shown in the Actuarial Section differs from that shown in the Financial Section. This difference is because the value shown in the Actuarial Section includes an adjustment to the liabilities in order to reflect the commitment to divert a portion of future DB Program contributions to fund the MPP Program. We believe this approach is appropriate for funding purposes and is consistent with our actuarial valuation; however, it is our understanding that this adjustment does not conform with GASB 25 disclosure requirements. Therefore, a slightly lower liability number that does not include the adjustment is shown in the Financial Section.

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 February of 2012. Revised economic assumptions were also adopted at the February 2012 meeting. The assumptions will be reviewed in detail again in the fiscal year ending June 30, 2016.

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, 2012 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 study was adopted by the Teachers' Retirement Board on February 2, 2012.

The most recent experience study for 2006–2010 was completed as of June 30, 2010. The most recent actuarial valuation was completed as of June 30, 2012 and adopted by the Teachers' Retirement Board on April 11, 2013.

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 February 2, 2012.

The following is a summary of the assumptions adopted by the Teachers' Retirement Board for this program:

- Investment return rate is 7.50 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 3.75 percent, of which 3.00 percent is due to inflation and 0.75 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:

The nature of the program—Since the last experience study as of June 30, 2010, no program amendments have been made that have affected the June 30, 2012 actuarial valuation.

Changes to the plan: Effective January 1, 2013 Chapter 296, Statutes of 2012 (AB 340-Furutani), was enacted in 2012. The new law reduces retirement benefits for educators who became members after 2012. Specifically, for new members some of the key provisions of the law are: 1) the benefit factors at all ages less than age 65 are reduced; 2) final compensation is based on a 36-month period; 3) the definition of creditable compensation is restricted; and, 4) compensation for benefit purposes is limited to no more than 120% of the Social Security taxable wage base. Additional changes that do not directly affect the calculated retirement benefits apply to all members. Changes due to AB 340 are not reflected in the following tables, but will be reflected in future valuations.

Funding: Prior to the adoption of the current assumptions, CalSTRS took legal action to compel the state to contribute the $500 million that was reduced for fiscal year 2003–04 to the SBMA. 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 2012–13 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 new economic actuarial assumptions for this program as reflected in the most recent actuarial valuation as of June 30, 2012.

Demographic assumptions: Tables 1–4 and 6–8 provide new demographic assumption information for this program as reflected in the most recent actuarial valuation as of June 30, 2012.

Actuarial Methods

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 9–12 provide summaries of the valuation results. The data displayed in Table 9 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 9 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 10 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 10 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 10 for these adjustments.

The following significant plan changes have taken place during the time depicted in Table 11. 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.
- Extended existing post-retirement earnings exemption for retired members who fill a vacant administrative position in an emergency situation for up to two years.
- Extended retirement date and sunset date for other existing post-retirement earnings exemptions.
- Allowed 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, 2012, determined there is an unfunded actuarial obligation for this program. The prior actuarial valuation as of June 30, 2011, 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 CalSTRS 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 and 2012, as a result of the competitive bid process.

Summary of Defined Benefit Program Provisions

The following summary and tables were prepared by CalSTRS staff. All information is considered in the June 30, 2012 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 ½ 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 ¼ 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.

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 updated on or before the subsequent April 15th 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 updated on or before the subsequent April 15th 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. Due to an unfunded actuarial obligation as of June 30, 2011 related to the 1990 Benefit Structure, an additional 0.774 percent contribution was made in 2012–13.

Changes in Defined Benefit Program Provisions

None.

DEFINED BENEFIT PROGRAM

Table 1 Post-Retirement Mortality Table for Sample Ages

	Male	Female
Age	2011	2011
50	0.114%	0.073%
55	0.164	0.118
60	0.300	0.254
65	0.596	0.468
70	1.095	0.864
75	1.886	1.451
80	3.772	2.759
85	7.619	5.596
90	14.212	11.702
95	22.860	17.780

All demographic assumptions used in the actuarial valuation were adopted by the Teachers' Retirement Board when the experience study was adopted on February 2, 2012.

Table 2 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	32.5
	70	100.0	10.8	30.0
	75	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	37.5
	70	100.0	13.5	35.0
	75	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

Duration	
Male	
1	13.0%
2	9.0
3	6.4
4	4.6
5	3.9
10	1.8
15	0.9
20	0.5
25	0.3
Female	
1	12.0%
2	8.5
3	6.4
4	4.6
5	3.9
10	1.8
15	0.9
20	0.5
25	0.3

Table 3 Probabilities of Refund by Sample Duration of Members and Sample Entry Ages (continued)

	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)	7.50
Wage Inflation	3.75
Interest on Member Accounts	4.50

Table 6 Mortality Assumptions

	Retired Members[1]
Male	2011 CalSTRS Retired-M
Female	2011 CalSTRS Retired-F
	Active Members
Male	2011 CalSTRS Retired-M (-2 years)
Female	2011 CalSTRS Retired-F (-2 years)
	Beneficiaries[1]
Male	2011 CalSTRS Beneficiary-M
Female	2011 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	
Age	
<70	2% at age 40 and under, graded to 3.2% at age 70
>70	RP 2000 male white collar +7 projected to 2025 at age 70 smoothed to +1 age 85 (select rates in first three years, regardless of age)
Female	
Age	
<70	1.5% at age 40 and less graded to 2.25% at age 70
>70	RP 2000 female white collar +6 projected to 2025 at age 70 smoothed to +2 at age 80 (select rates in first three years, regardless of age)

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

Table 8 Disability Rates
(sample ages)

Coverage A			Coverage B		
Male	25	0.018%	**Male**	25	0.010%
	30	0.027		30	0.020
	40	0.072		35	0.030
	50	0.144		40	0.060
	55	0.189		45	0.100
Female	25	0.018%		50	0.140
	30	0.027		55	0.245
	40	0.081	**Female**	25	0.020%
	50	0.198		30	0.020
	55	0.252		35	0.040
				40	0.070
				45	0.110
				50	0.185
				55	0.300

Table 9 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
2011	429,600	25,576,008,636	59,534	0.0
2012	421,499	25,388,209,920	60,233	1.2

DEFINED BENEFIT PROGRAM

Table 10 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 Benefits[1]	Number	Annual Benefits[1]	Number	Annual Benefits[1]	% Increase	Average Annual Benefits
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	14,559	671,868	6,938	181,927	253,041	9,802,995	6.9%	38,741
2012	14,316	635,935	6,860	187,271	262,039	10,458,555	6.7%	39,912
2013	12,377	555,751	7,119	205,779	269,429	11,091,944	6.1%	41,168

[1]Dollars in thousands

Table 11 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
2011	27,038	109,984	71,383	143,930	100.0	100.0	9.7
2012	27,245	116,475	71,469	144,232	100.0	100.0	0.7

These amounts reflect the actuarial valuation prepared for funding purposes as of June 30, 2012 and June 30, 2011 for the Defined Benefit Program. The difference between this table and the amounts in the Schedule of Funding Progress (Schedule I) in the Financial Section pertains to the treatment of MPP program obligations. As of the June 30, 2012 and the June 30, 2011 actuarial valuations, the future employer contributions committed to funding the MPP program obligations total $424 million and $635 million, respectively. These amounts are included in the obligations shown in the Actuarial Section, but not those shown in the Financial Section.

Table 12 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	
	2012 (2011)	2011 (2010)
Actuarial Obligation at June 30:	$208,405	$196,315
Normal Cost	4,704	4,587
Benefit Payments	(10,291)	(9,685)
Expected Interest	15,425	15,021
Expected Actuarial Obligation at June 30:	218,243	206,238
Expected Actuarial Value of Assets at June 30:	149,261	146,080
Expected UAO at June 30	68,982	60,158
Actuarial (Gains) or Losses		
Change in Assumptions	0	6,389
Investment Return Assumptions	3,908	1,176
Demographic Assumptions	(3,054)	(4,222)
Net Change Other Sources	1,121	974
Total Actuarial (Gains) & Losses	1,975	4,317
Unfunded Actuarial Obligation at June 30	$70,957	$64,475
Funded Ratio	67%	69%

These amounts reflect the actuarial valuation prepared for funding purposes as of June 30, 2012 and June 30, 2011 for the Defined Benefit Program. The difference between this table and the amounts in the Schedule of Funding Progress (Schedule I) in the Financial Section pertains to the treatment of MPP program obligations. As of the June 30, 2012 and the June 30, 2011 actuarial valuations, the future employer contributions committed to funding the MPP program obligations total $424 million and $635 million, respectively. These amounts are included in the obligations shown in the Actuarial Section, but not those shown in the Financial Section.

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November 22, 2013

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, 2010	86%
June 30, 2011	104%
June 30, 2012	101%

The market loss for the fiscal year ended in 2012 caused a small decrease in the Funded Ratio. As of June 30, 2012, the Market Value of Assets for the DBS Program is approximately equal to the Actuarial Obligation.

The June 30, 2012 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 2013 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, 2012 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 February of 2012. Revised economic assumptions were also adopted at the February 2012 meeting. The assumptions will be reviewed in detail again in 2015.

Milliman

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, 2012 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

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

Nick Collier

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

MCO/NJC/nlo

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DEFINED BENEFIT SUPPLEMENT PROGRAM

Summary of Actuarial Assumptions and Methods

CalSTRS, through its consulting actuary, performs 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, 2012, and adopted by the Teachers' Retirement Board April 11, 2013. The following summary and tables were prepared by CalSTRS staff. All information is considered in the June 30, 2012 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 February 2, 2012, 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. All of the assumptions used in the actuarial valuation were adopted by the Teachers' Retirement Board when the experience study was adopted on February 2, 2012. Following are the assumptions adopted by the Teachers' Retirement Board for this program.

- Investment return rate is 7.50 percent.
- Method used to value plan assets for actuarial valuation purposes: Fair market value.
- Assumption for general wage increase is 3.75 percent, of which 3.00 percent is due to inflation and 0.75 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.

The actuarial methods used for the program's actuarial valuation as of June 30, 2012, result in an actuarial surplus of $50,527,000.

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 CalSTRS 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 and in 2006 and 2012, 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, 2012 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—Member and employer contributions are 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.

Early Retirement

Eligibility Requirement—Same as Normal Retirement.

Benefit and Form of Payment—Same as Normal Retirement.

Late Retirement

Benefit and Form of Payment—Same as Normal Retirement.

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

Deferred Retirement

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

Disability Benefit

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

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

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

Death Before Retirement

Eligibility Requirement—Deceased member has an account balance.

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

Form of Payment—Similar to Normal Retirement.

Death After Retirement

Eligibility Requirement—The deceased member was receiving an annuity.

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

Termination from the Program

Eligibility Requirement—Termination of all CalSTRS-covered employment.

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

Benefit and Form of Payment—Lump-sum distribution of the account balance as of the date of distribution.

Changes in Defined Benefit Supplement Program Provisions

There have been no program amendments that would affect an actuarial valuation of the Defined Benefit Supplement Program since the last CalSTRS annual financial report was issued. All program provisions were considered in the completion of the June 30, 2012 actuarial valuation.

DEFINED BENEFIT SUPPLEMENT PROGRAM

All of the assumptions used in the actuarial valuation were adopted by the Teachers' Retirement Board when the experience study was adopted on February 2, 2012. 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	2011 CalSTRS Retired–M	2011 CalSTRS Retired–F
50	0.114%	0.073%
55	0.164	0.118
60	0.300	0.254
65	0.596	0.468
70	1.095	0.864
75	1.886	1.451
80	3.772	2.759
85	7.619	5.596
90	14.212	11.702
95	22.860	17.780

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	32.5	37.5
70	10.8	13.5	30.0	35.0
75	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

Duration			
Male		Female	
1	13.0%	1	12.0%
2	9.0	2	8.5
3	6.4	3	6.4
4	4.6	4	4.6
5	3.9	5	3.9
10	1.8	10	1.8
15	0.9	15	0.9
20	0.5	20	0.5
25	0.3	25	0.3
30	0.2	30	0.2

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	7.50
Wage Inflation	3.75
Interest on Member Accounts	7.50

Table 6 Mortality Assumptions

	Retired Members[1]
Male	2011 CalSTRS Retired-M
Female	2011 CalSTRS Retired-F
	Active Members
Male	2011 CalSTRS Retired-M (-2 years)
Female	2011 CalSTRS Retired-F (-2 years)
	Beneficiaries[1]
Male	2011 CalSTRS Beneficiary-M
Female	2011 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	
Age	
<70	2% at age 40 and under, graded to 3.2% at age 70
>70	RP 2000 male white collar +7 projected to 2025 at age 70 smoothed to +1 age 85 (select rates in first three years, regardless of age)
Female	
Age	
<70	1.5% at age 40 and less graded to 2.25% at age 70
>70	RP 2000 female white collar +6 projected to 2025 at age 70 smoothed to +2 at age 80 (select rates in first three years, regardless of age)

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

Table 8 Disability Rates—Coverage B
(sample ages)

Coverage A			Coverage B		
Male	25	0.018%	**Male**	25	0.010
	30	0.027		30	0.020
	40	0.072		35	0.030
	50	0.144		40	0.060
	55	0.189		45	0.100
Female	25	0.018%		50	0.140
	30	0.027		55	0.245
	40	0.081	**Female**	25	0.020
	50	0.198		30	0.020
	55	0.252		35	0.040
				40	0.070
				45	0.110
				50	0.185
				55	0.300

Table 9 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	27,340,840,174	61,952	(1.195)
2011	423,366	26,758,301,370	63,204	2.021
2012	403,117	26,556,820,635	65,879	4.232

[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.

DEFINED BENEFIT SUPPLEMENT PROGRAM

Table 10 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
2012	8,257	32,650,936	2,386	11,666,909	42,055	124,148,784	20.4	2,952
2013	7,425	30,392,875	2,657	13,354,982	47,014	141,044,393	13.6%	3,000

*The Defined Benefit Supplement Program was established January 1, 2001. As of June 30, 2003, all members who had retired or became disabled had elected a lump-sum distribution.
[1]Revised in 2007

Table 11 Solvency Test

Aggregate Accrued Liabilities for					Funding of Liabilities		
Valuation Date (as of June 30)	(1) Active Member Contributions on Deposit	(2) Future Benefitsto Benefit Recipients	(3) Service Already Rendered by Active Members	Actuarial Value of Assets	(1)	(2)	(3)
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	—	—
2011	7,196,652,000	577,115,000	0	8,054,962,000	100.0	100.0	—
2012	7,280,977,000	710,586,000	0	8,042,090,000	100.0	100.0	—

DEFINED BENEFIT SUPPLEMENT PROGRAM

Table 12 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	
	2012 (2011)	2011 (2010)
Actuarial Obligation at June 30	$7,773,767	$7,456,442
Expected Changes:		
Contributions	102,570	410,820
Benefits Paid	(247,847)	(275,905)
Expected Earnings/Credits	577,585	545,483
Expected Actuarial Obligation at June 30	8,206,075	8,136,840
Expected Actuarial Value of Assets at June 30	8,508,359	7,016,869
Expected UAO at June 30	(302,284)	1,119,971
Actuarial (Gains) or Losses		
(Gain) on Actuarial Obligation	(214,512)	(363,073)
(Gain) on Assets	466,269	(1,038,093)
Total Actuarial (Gains) & Losses	251,757	(1,401,166)
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	($50,527)	($281,195)
Funded Ratio	101%	104%

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November 22, 2013

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, 2010	88%
June 30, 2011	105%
June 30, 2012	100%

The market loss for the fiscal year ended in 2012 caused a small decrease in the Funded Ratio. As of June 30, 2012, the Market Value of Assets for the CBB Program is approximately equal to the Actuarial Obligation.

The June 30, 2012 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 2013 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, 2012 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 February of 2012. Revised economic assumptions were also adopted at the February 2012 meeting. The assumptions will be reviewed in detail again in 2015.

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Milliman

Teachers' Retirement Board
November 22, 2013
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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, 2012 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

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

Nick Collier

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

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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, 2012, and adopted by the Teachers' Retirement Board April 11, 2013. The following summary and tables were prepared by CalSTRS staff. All information is considered in the June 30, 2012 actuarial valuation.

The Cash Balance Benefit Program was established July 1, 1996. The most recent experience study of the program was completed as of June 30, 2010. The experience study was adopted by the Teachers' Retirement Board on February 2, 2012 and was used to complete the latest actuarial valuation. All of the assumptions used in the actuarial valuation was adopted by the Teachers' Retirement Board when the experience study was adopted. Following are the assumptions adopted by the Teachers' Retirement Board for this program.

- Investment return rate is 7.00 percent.
- Method used to value plan assets for actuarial valuation purposes: Fair market value.
- Assumption for general wage increase is 3.75 percent, of which 3.00 percent is due to inflation and 0.75 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, 2012, 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.

The actuarial methods used for the program's actuarial valuation as of June 30, 2012, result in an actuarial surplus of $34,000.

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 CalSTRS are provided under contract by a qualified independent actuarial firm, with additional review provided by the actuarial staff. The current actuarial consultant was retained on January 15, 2000 and in 2006 and 2012, as a result of the competitive bid process.

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.

CASH BALANCE BENEFIT PROGRAM

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, 2012 actuarial valuation.

Membership

Eligibility Requirement—Membership if employed at less than 50 percent of a full-time position for a California school district, community college district or county office of education that has elected to offer the Cash Balance Benefit Program.

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

Account Balance

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

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

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

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

Minimum Interest Rate—Annual rate determined for the plan year by the Teachers' Retirement Board in accordance with federal laws and regulations. The minimum interest rate is equal to the average of the yields on 30-year Treasury Notes for the 12 months ending in February preceding the beginning of the plan year, rounded to the next highest 0.25 percent.

Additional Earnings Credit—Annual rate determined for the plan year by the Teachers' Retirement Board based on the actual earnings during the plan year, but only to the extent the earnings are sufficient to credit the minimum interest rate and provide any additions to the gain and loss reserve deemed warranted by the Board. The board adopted an additional earnings credit of 1.18 percent for the fiscal year ending June 30, 2006, and an additional earnings credit of 4.69 percent for the fiscal year ending June 30, 2007.

Additional Annuity Credit—Annual rate determined for the plan year by the Teachers' Retirement Board based on the actual earnings during the plan year, but only to the extent the earnings are sufficient to credit the Minimum Interest Rate and provide any additions to the Gain and Loss Reserve deemed warranted by the Board. The board adopted an additional annuity credit of 1.18 percent for the fiscal year ending June 30, 2006, and an additional annuity credit of 4.69 percent for the fiscal year ending June 30, 2007.

Normal Retirement

Eligibility Requirement—Age 60.

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

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

Early Retirement

Eligibility Requirement—Age 55.

Benefit and Form of Payment—Same as Normal Retirement.

Late Retirement

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

Deferred Retirement

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

Disability Benefit

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

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

Form of Payment—Same as Normal Retirement.

Death Before Retirement

Eligibility Requirement—Deceased participant has an account balance.

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

Form of Payment—Normal distribution is a lump-sum benefit. A participant's beneficiary may elect to receive the benefit in the form of a period-certain annuity if the sum of the balance of credits to the participant's employee and employer accounts equals or exceeds $3,500.

Death After Retirement

Eligibility Requirement—The deceased participant was receiving an annuity.

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

Termination from the Program

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

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

Changes in Cash Balance Benefit Program Provisions

There have been no program amendments that would affect an actuarial valuation of the Cash Balance Benefit Program since the last CalSTRS annual financial report was issued. All program provisions were considered in the completion of the June 30, 2012 actuarial valuation.

CASH BALANCE BENEFIT PROGRAM

All demographic assumptions used in the actuarial valuation were adopted by the Teachers' Retirement Board when the experience study was adopted on February 2, 2012. The 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	2011 CalSTRS Retired–M	2011 CalSTRS Retired–F
50	0.114%	0.073%
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65	13.5	14.4	32.5	37.5
70	10.8	13.5	30.0	35.0
75	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

Duration			
Male		Female	
1	13.0%	1	12.0%
2	9.0	2	8.5
3	6.4	3	6.4
4	4.6	4	4.6
5	3.9	5	3.9
10	1.8	10	1.8
15	0.9	15	0.9
20	0.5	20	0.5
25	0.3	25	0.3
30	0.2	30	0.2
35	—	35	—
40	—	40	—

Table 4 Assumption for Pay Increases Due to Promotions and Longevity for Sample Ages

(exclusive of the assumed general wage increase, which includes inflation)

	Entry Ages					
Duration	**Under 25**	**25–29**	**30–34**	**35–39**	**40–44**	**45+**
1	5.6%	5.3%	5.1%	4.8%	4.8%	3.5%
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	7.00
Wage Inflation	3.75
Interest on Member Accounts	7.00

Table 6 Mortality Assumptions

	Retired Members[1]
Male	2011 CalSTRS Retired-M
Female	2011 CalSTRS Retired-F
	Active Members
Male	2011 CalSTRS Retired-M (-2 years)
Female	2011 CalSTRS Retired-F (-2 years)
	Beneficiaries[1]
Male	2011 CalSTRS Beneficiary-M
Female	2011 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	
Age	
<70	2% at age 40 and under, graded to 3.2% at age 70
>70	RP 2000 male white collar +7 projected to 2025 at age 70 smoothed to +1 age 85 (select rates in first three years, regardless of age)
Female	
Age	
<70	1.5% at age 40 and less graded to 2.25% at age 70
>70	RP 2000 female white collar +6 projected to 2025 at age 70 smoothed to +2 at age 80 (select rates in first three years, regardless of age)

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

Table 8 Disability Rates – Coverage B
(sample ages)

Coverage A			Coverage B		
Male	25	0.018%	Male	25	0.010
	30	0.027		30	0.020
	40	0.072		35	0.030
	50	0.144		40	0.060
	55	0.189		45	0.100
Female	25	0.018%		50	0.140
	30	0.027		55	0.245
	40	0.081	Female	25	0.020
	50	0.198		30	0.020
	55	0.252		35	0.040
				40	0.070
				45	0.110
				50	0.185
				55	0.300

Table 9 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)
2011	9,923	158,501,388	15,973	1.5
2012	9,273	151,284,621	16,315	2.1

CASH BALANCE BENEFIT PROGRAM

Table 10 Schedule of Retired Participants and Beneficiaries Added to and Removed from Annuity Rolls

	Added to Rolls*		Removed from Rolls		Rolls–End of Year			
Date (as of June 30)	Number	Annual 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[1]	24	66,664	2	6,899	67	169,827	54.3%	2,535
2012[2]	42	139,297	5	18,110	104	290,014	70.8%	2,789
2013	30	132,912	8	26,578	126	397,126	36.9%	3,152

*The Cash Balance Benefit Program was established July 1, 1996. As of June 30, 2003, all participants who had retired or became disabled had elected a lump-sum distribution.

[1]Revised Annual Allowance figures in 2013

[2]Revised Counts and Annual Allowances figures in 2013

Table 11 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 Benefit to Benefit Recipients	(3) Service Already Rendered by Active Members	Actuarial Value of Assets	(1)	(2)	(3)
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	—	—
2011	143,695,000	767,000	0	151,248,000	100.0	100.0	—
2012	156,600,000	1,386,000	0	158,020,000	100.0	100.0	—

Table 12 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	
	2012 (2011)	2011 (2010)
Actuarial Obligation at June 30:	$144,462	$129,574
Expected Changes:		
Contributions	11,846	12,889
Benefits Paid	(4,742)	(3,768)
Expected Earnings/Credits	10,361	9,725
Expected Actuarial Obligation at June 30:	161,927	148,420
Expected Actuarial Value of Assets at June 30:	169,188	132,165
Expected UAO at June 30	(7,261)	16,255
Actuarial (Gains) or Losses		
(Gain) on Actuarial Obligation	(3,941)	(3,958)
(Gain) on Assets	11,168	(19,083)
Total Actuarial (Gains) & Losses	7,227	(23,041)
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	($34)	($6,786)
Funded Ratio	100%	105%

GASB 43 REPORTING FOR THE MEDICARE PREMIUM PAYMENT PROGRAM

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November 22, 2013

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, 2012.

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. As of June 30, 2012, $424 million of future employer contributions to the DB Program have been allocated to pay the MPPP benefits; however, this amount is not included as an asset 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 a portion of future contributions 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, 2012.

The June 30, 2012 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 2013 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, 2012 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 April 2013 meeting.

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. It should be noted that we relied on advice from Milliman's health actuaries on our recommendations of assumptions specific to health costs. 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

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

We certify that the June 30, 2012 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	Nick J. Collier, ASA, EA, MAAA
Principal and Consulting Actuary	Principal and Consulting Actuary

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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, 2012, and adopted by the Teachers' Retirement Board April 11, 2013. The following tables and summary were prepared by CalSTRS staff.

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 February 2, 2012. The economic and demographic 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 2012 were considered when producing GASB 43 reporting information.

Actuarial Assumptions—There have been several changes to the assumptions since the June 30, 2012 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, 2012, result in an unfunded actuarial accrued liability of $581.7 million.

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

There are no other specific assumptions that have a material impact on GASB 43 reporting information.

Independent Actuarial Review

Actuarial services for CalSTRS 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 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.

MEDICARE PREMIUM PAYMENT PROGRAM

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, 2012.

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 ($451 per month in 2012)

Part B – Part B penalty. Based on Part B premium ($99.90 per month in 2012). Small group of high earners will have higher premiums, up to $319.70 in 2012.

Changes in the Medicare Premium Payment Program Provisions

The following amendments were considered for June 30, 2012 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 when the experience study was adopted on February 2, 2012. Following are assumptions adopted by the Teachers' Retirement Board for this program.

Table 1 Post-Retirement Mortality Table for Sample Ages

	Male	Female
Age	2011 CalSTRS Retired–M	2011 CalSTRS Retired–F
50	0.114%	0.073%
55	0.164	0.118
60	0.300	0.254
65	0.596	0.468
70	1.095	0.864
75	1.886	1.451
80	3.772	2.759
85	7.619	5.596
90	14.212	11.702
95	22.860	17.780

Table 2 Probabilities of Retirement for Sample Ages

NOT APPLICABLE

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

NOT APPLICABLE

MEDICARE PREMIUM PAYMENT PROGRAM

Table 4 Probability of Refund

NOT APPLICABLE

Table 5 Economic Assumptions

Investment Yield	
GASB Reporting	4.00%
Medical Inflation	
Part A Premiums	3.50%
Part B Premiums	4.50%
Price Inflation	**3.00%**

Table 6 Mortality Assumptions

	Retired Members[1]
Male	2011 CalSTRS Retired-M
Female	2011 CalSTRS Retired-F
	Active Members
Male	N/A
Female	N/A
	Beneficiaries[1]
Male	2011 CalSTRS Beneficiary-M
Female	2011 CalSTRS Beneficiary-F

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

MEDICARE PREMIUM PAYMENT PROGRAM

Table 7 Termination from Disability Due to Death[1]

Male	
Age	
<70	2% at age 40 and under, graded to 3.2% at age 70
>70	RP 2000 male white collar +7 projected to 2025 at age 70 smoothed to +1 age 85 (select rates in first three years, regardless of age)
Female	
Age	
<70	1.5% at age 40 and less, graded to 2.25% at age 70
>70	RP 2000 female white collar +6 projected to 2025 at age 70 smoothed to +2 age 80 (select rates in first three years, regardless of age)

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

Table 8 Service Retirement
(sample ages)

NOT APPLICABLE

Table 9 Disability Rates
(sample ages)

NOT APPLICABLE

MEDICARE PREMIUM PAYMENT PROGRAM

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)	2.80%	2.80%
% 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	1.20	1.20
66	0.12	0.12
67	0.10	0.10
68	0.08	0.08
69	0.06	0.06
70-84	0.02	0.02
85 & above	0.00	0.00

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
2012	359	1,177	218	634	6,742	33,708	–2.8	5,000
2013	282	688	212	735	6,710	33,240	–1.4%	4,954

[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
2012	0	582.1	0	0.4	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	
	2012 (2011)	2010 (2009)
Actuarial Obligation at June 30:		
Expected Changes:		
Eligibility Extended	not calculated	not calculated
Benefits Paid	($35.0)	($36.0)
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	$581.7	$904.4
Funded Ratio	0.1%	0.1%

STATISTICAL

STATISTICAL

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 CalSTRS. 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 Position
- Benefit and Refund Deductions from Net Position 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 CalSTRS pension administration system, START, 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 position. The STRP also includes the Replacement Benefit Program (RBP). The RBP is included in the Defined Benefit Program in this section.

DEFINED BENEFIT PROGRAM

Table 1 Changes in Net Position[1]

(dollars in millions)

Fiscal Year Ending June 30	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Additions										
Member Contributions	$2,247.3	$2,229.2	$2,007.6	$1,673.5	$1,792.3	$1,820.1	$1,690.5	$1,626.1	$1,748.3	$1,640.7
Employer Contributions	2,198.5	2,174.3	2,234.8	2,134.3	2,335.5	2,328.2	2,168.4	2,094.5	2,004.6	1,918.3
State of California/ Federal Government[2]	1,328.3	1,302.5	1,193.3	1,221.6	1,140.4	1,629.6	1,084.4	1,018.7	1,218.6	548.7
Investment Income	19,567.3	932.4	28,488.5	14,363.8	(39,215.5)	(9,260.3)	29,027.7	15,732.6	13,897.6	16,354.3
Other Income	1.2	4.1	6.5	7.7	7.5	213.1	0.5	0.1	1.4	(0.3)
Total Additions	**$25,342.6**	**$6,642.5**	**$33,930.7**	**$19,400.9**	**($33,939.8)**	**($3,269.3)**	**$33,971.5**	**$20,472.0**	**$18,870.5**	**$20,461.7**
Deductions										
Benefit Payments to Members	$10,850.7	$10,215.5	$9,602.1	$8,859.6	$8,098.5	$7,451.2	$6,839.5	$6,334.4	$5,835.9	$5,279.5
Refunds of Member Contributions	78.2	82.5	88.8	85.4	74.9	83.5	87.5	82.9	79.1	79.2
Purchasing Power Benefits	221.5	234.6	237.6	272.6	348.1	229.8	230.3	215.3	221.3	223.5
Administration Expenses	129.2	131.4	104.2	134.0	109.7	106.4	103.4	93.6	92.9	93.5
Other Expense	4.4	0.0	0.0	0.0	0.0	(0.2)	0.0	0.0	10.1	1.7
Total Deductions	**$11,284.0**	**$10,664.0**	**$10,032.7**	**$9,351.6**	**$8,631.2**	**$7,870.7**	**$7,260.7**	**$6,726.2**	**$6,239.3**	**$5,677.4**
Change in Net Position	**$14,058.6**	**($4,021.5)**	**$23,898.0**	**$10,049.3**	**($42,571.0)**	**($11,140.0)**	**$26,710.8**	**$13,745.8**	**$12,631.2**	**$14,784.3**

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

[1]Includes the Replacement Benefit Program starting in 2009, the year the Replacement Benefit Program began being reported as part of the State Teachers' Retirement Plan.

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

DEFINED BENEFIT PROGRAM

Table 2 Benefit and Refund Deductions from Net Position by Type[1]

(dollars in millions)

Fiscal Year Ending June 30	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Type of Benefit										
Age & Service Benefits										
Retired Members	$10,017.0	$9,493.6	$8,931.6	$8,149.2	$7,461.5	$6,834.5	$6,290.7	$5,817.7	$5,346.8	$4,856.7
Survivors	518.3	501.9	463.6	502.7	443.0	426.2	376.7	351.9	329.8	233.8
Death	73.4	25.1	29.2	35.0	32.3	35.0	26.5	27.6	34.2	74.0
Purchasing Power Benefits	221.5	234.6	237.6	272.6	348.1	229.8	230.3	215.3	221.3	223.5
Disability Benefits										
Retired Members	242.0	194.9	177.7	172.7	161.7	155.6	145.6	137.2	125.1	115.0
Survivors	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Benefits	**$11,072.2**	**$10,450.1**	**$9,839.7**	**$9,132.2**	**$8,446.6**	**$7,681.1**	**$7,069.8**	**$6,549.6**	**$6,057.2**	**$5,502.9**
Type of Refund										
Separation	$78.2	$82.5	$88.8	$85.4	$74.9	$83.5	$87.5	$82.9	$79.1	$79.2
Total Refunds	**$78.2**	**$82.5**	**$88.8**	**$85.4**	**$74.9**	**$83.5**	**$87.5**	**$82.9**	**$79.1**	**$79.2**

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

[1]Includes the Replacement Benefit Program beginning in 2009.

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
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
2012	421,499	64,743	45.5	11.9	26.5
2013	416,643	65,571	45.6	12.2	26.6

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

Table 4 Members Retired for Service During Fiscal Year 2012–13, Classified by Unmodified Allowance[1]

Monthly Unmodified Allowance[2]	Count	Average Age at Retirement[3]	Average Service Credit[3]	Average Final Compensation[3]	Average Allowance Payable[3]
Less than $500	465	62.6	5.630	$3,534	$328
500–1000	796	62.3	9.040	4,387	723
1000–1500	762	61.9	12.855	5,099	1,207
1500–2000	739	62.1	15.303	5,813	1,700
2000–2500	947	62.4	18.034	6,204	2,160
2500–3000	910	62.7	20.424	6,460	2,649
3000–3500	901	62.7	22.818	6,669	3,120
3500–4000	846	63.1	24.878	6,897	3,611
4000–4500	810	62.9	27.107	7,060	4,084
4500–5000	706	62.8	29.095	7,183	4,571
5000–5500	683	62.5	30.967	7,323	5,043
5500–6000	700	62.3	32.788	7,406	5,518
6000 & Greater	2,380	62.7	36.002	8,797	7,273
Total	**11,645**	**62.6**	**24.085**	**$6,769**	**$3,811**

[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 2012–13[1], Classifed by Age and Joint & Survivor Option Elected[2]

			Option types							
Age	**Total**	**Unmodified**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**
Under 55	27	19					4	1	1	2
55	496	324					96	38	5	33
56	324	211					57	26	3	27
57	364	217					73	41	3	30
58	447	250					92	60	2	43
59	692	353					159	92	4	84
60	1115	571	3				221	180	8	132
61	1521	697	15	1			358	224	21	205
62	1471	731	15	4			328	215	18	160
63	1319	745	8	1	1		258	174	16	116
64	851	508	10	1			142	106	8	76
65	892	526	14	2			163	100	17	70
66	651	394	8	1			119	73	8	48
67	379	227	3	1			75	42	5	26
68	250	151	1				44	22	9	23
69	241	159	1				26	25	7	23
70	191	127	7				24	18	7	8
71	121	85	1				15	12	4	4
72	86	53	1				18	6	1	7
73	51	32	2				6	6	2	3
74	33	23					3	3	1	3
75 and over	123	80	4				14	19	1	5
Age Unknown										
Total	**11,645**	**6,483**	**93**	**11**	**1**		**2,295**	**1,483**	**151**	**1,128**
% of Total	100%	56%	1%	0%	0%	0%	20%	13%	1%	10%

[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 receive 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 Allowance Payable	Average Service Credit	Average Final Compensation	Average Age at Disability
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
2012	488	2,825	14.321	5,823	55.4
2013	571	2,788	14.800	5,742	54.9

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
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
2012	230,278	9,036	22,724	262,038
2013	236,487	9,374	23,413	269,274

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

[1]Does not include formerly disabled members

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

Table 8 Members Retired for Service Characteristics[1] by Year of Retirement (continued)

Effective Date of Retirement by Service Credit	Number of Retirements	Average Service Credit	Average Unmodified Allowance	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**
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**

[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 Unmodified Allowance	Average Final Compensation	Average Age at Retirement
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**
7/1/2011 thru 6/30/2012[2]					
0–5	167	2.441	$310	$6,013	63.0
5–10	1,497	7.306	676	4,224	63.2
10–15	1,659	12.521	1,437	5,315	62.7
15–20	1,743	17.425	2,316	6,122	62.7
20–25	1,962	22.535	3,350	6,788	62.6
25–30	1,878	27.097	4,318	7,212	62.8
30–35	2,547	32.504	5,750	7,550	61.4
35–40	1,770	37.203	7,364	8,093	61.9
40 & over	396	42.138	9,487	9,113	65.2
Total	**13,619**	**23.710**	**$3,936**	**$6,670**	**62.5**

[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 Unmodified Allowance	Average Final Compensation	Average Age at Retirement
7/1/2012 thru 6/30/2013[2]					
0–5	132	2.527	$311	$6,092	62.8
5–10	1,017	7.246	710	4,540	63.1
10–15	1,298	12.573	1,521	5,528	63.1
15–20	1,678	17.421	2,392	6,272	63.0
20–25	1,760	22.589	3,367	6,802	62.8
25–30	1,817	27.222	4,319	7,169	62.7
30–35	2,150	32.509	5,700	7,528	61.6
35–40	1,522	37.206	7,329	8,038	61.8
40 & over	271	42.344	8,924	8,439	65.6
Total	**11,645**	**24.085**	**$3,980**	**$6,769**	**62.6**

[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 Allowance Payable
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
2012	61.1	26.2	5,271	3,517
2013	61.1	26.1	5,385	3,609

[1]Does not include formerly disabled members.

Table 10 Retired Members by Type of Benefit and Option Selected

		Type of Benefit[1]			Option selected[2]								
Monthly Unmodified Allowance[4]	Total	1[3]	2	3	Unmodified	2	3	4	5	6	7	8	9
Less than $500	18,027	15,463	130	2,434	13,277	1,590	533	71	89	1,576	612	85	194
500–1000	26,558	22,629	715	3,214	17,907	2,357	1,303	124	112	2,695	1,483	104	473
1000–1500	27,375	22,760	1,051	3,564	16,179	2,871	1,653	221	162	3,235	2,327	89	638
1500–2000	28,585	23,636	1,649	3,300	15,939	2,691	1,271	481	192	3,638	3,423	123	827
2000–2500	28,313	22,997	2,239	3,077	14,765	2,488	1,067	412	219	4,208	4,059	162	933
2500–3000	23,934	19,771	1,852	2,311	11,942	1,918	661	308	132	4,173	3,716	156	928
3000–3500	19,416	16,564	1,183	1,669	9,384	1,338	421	255	74	3,724	3,131	176	913
3500–4000	15,018	13,632	372	1,014	7,174	945	293	173	58	2,900	2,581	129	765
4000–4500	13,565	12,723	114	728	6,264	783	233	102	42	2,669	2,577	171	724
4500–5000	13,005	12,346	36	623	5,841	716	217	71	30	2,833	2,409	170	718
5000–5500	12,888	12,426	18	444	5,619	677	179	66	20	2,905	2,435	185	802
5500–6000	11,355	10,995	7	353	4,889	585	154	61	17	2,610	2,057	178	804
6000 & Greater	31,235	30,545	8	682	11,816	2,014	336	141	44	8,317	5,352	721	2,494
Total	**269,274**	**236,487**	**9,374**	**23,413**	**140,996**	**20,973**	**8,321**	**2,486**	**1,191**	**45,483**	**36,162**	**2,449**	**11,213**

[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 receive 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

	2012–13			2003–04		
Participating Employers	Covered Employees	Rank	Percentage of Total System	Covered Employees	Rank	Percentage of Total System
Los Angeles Unified	39,918	1	8.45%	51,274	1	10.05%
San Diego Unified	8,653	2	1.83	11,405	2	2.24
Long Beach Unified	4,861	3	1.03	6,965	3	1.37
Fresno Unified	4,765	4	1.01	5,988	4	1.17
San Francisco Unified	4,728	5	1.00	4,516	5	0.89
Elk Grove Unified	3,930	6	0.83	3,973	9	0.78
San Bernardino City Unified	3,632	7	0.77	4,024	8	0.79
Corona-Norco Unified	3,367	8	0.71			
Santa Ana Unified	3,319	9	0.70	3,940	10	0.77
Sacramento City Unified	3,244	10	0.69	4,047	7	0.79
Oakland Unified	3,015	11	0.64			
San Juan Unified	2,979	12	0.63	4,106	6	0.80
Top 12 Total	86,411		18.28	100,238		19.65
All Other	386,249		81.72	409,982		80.35
Total Covered Employees	**472,660**		**100.00%**	**510,220**		**100.00%**

Table 12 Average Allowance Purchasing Power for Fiscal Year 2012–13

Calendar Year of Benefit Effective Date	CCPI Increases Since Benefit Effective Date	Average Allowance Increases Since Benefit Effective Date	Average Purchasing Power of Current Allowance	Average Increase Needed to Restore Full Purchasing Power	Average Annual Supplemental Increase
(1)	(2)	(3)	(4)	(5)	(6)
Prior to 1956	825.2%	305.4%	43.8%	128.2%	$3,103
1956	807.6%	280.4%	41.9%	138.6%	$4,066
1957	777.4%	194.4%	33.6%	198.0%	$4,331
1958	746.2%	213.7%	37.1%	169.7%	$1,426
1959	734.3%	176.5%	33.1%	201.7%	$4,412
1960	717.1%	139.6%	29.3%	241.0%	$7,453
1961	706.0%	121.9%	27.5%	263.2%	$5,795
1962	692.6%	118.3%	27.5%	263.1%	$8,111
1963	687.4%	136.7%	30.1%	232.7%	$5,520
1964	672.0%	128.2%	29.6%	238.3%	$6,767
1965	652.5%	100.9%	26.7%	274.6%	$6,004
1966	640.8%	109.1%	28.2%	254.3%	$6,018
1967	622.7%	113.3%	29.5%	238.8%	$6,919
1968	593.2%	111.6%	30.5%	227.6%	$7,838
1969	560.5%	107.9%	31.5%	217.7%	$8,865
1970	527.4%	97.6%	31.5%	217.5%	$8,726
1971	503.5%	95.4%	32.4%	208.9%	$8,651
1972	487.1%	90.8%	32.5%	207.7%	$12,973
1973	456.9%	88.7%	33.9%	195.1%	$13,772
1974	404.8%	81.2%	35.9%	178.6%	$11,943
1975	357.3%	78.6%	39.0%	156.0%	$11,402
1976	330.8%	75.4%	40.7%	145.6%	$11,138
1977	299.6%	72.4%	43.2%	131.8%	$10,776
1978	268.1%	69.5%	46.1%	117.2%	$10,058
1979	234.9%	67.4%	50.0%	100.1%	$9,026
1980	185.5%	65.1%	57.8%	72.9%	$6,499
1981	163.9%	62.8%	61.7%	62.1%	$5,676
1982	141.4%	60.5%	66.5%	50.4%	$4,659
1983	139.9%	58.4%	66.0%	51.5%	$5,241
1984	129.5%	56.2%	68.1%	46.9%	$4,821
1985	119.4%	53.6%	70.0%	42.8%	$4,435
1986	111.9%	51.4%	71.5%	40.0%	$4,264

Explanation of source and/or calculation of data in columns 3, 4 and 5:

Column 3—Increases from all sources as a percentage of initial allowance. Obtained by dividing total current allowance by total initial allowance and adjusting to a percentage.

Column 4—Purchasing Power as of June 2012. Obtained by dividing total current allowance payable by full CCPI adjusted allowance. Based on totals forall benefit types by calendar year of effective date.

Column 5—Percentage increase in current allowance payable required to restore full 100 percent purchasing power as of June 2012. Obtained by dividing the fully adjusted CCPI allowance factor (column 2) by the percentage increase to date (column 3) and adjusting to a percentage. Example: (825.2 + 100) / (305.4 + 100) = 2.282 x 100 = 128.2 percent.

DEFINED BENEFIT PROGRAM

Table 12 Average Allowance Purchasing Power for Fiscal Year 2012–13 (Continued)

Calendar Year of Benefit Effective Date	CCPI Increases Since Benefit Effective Date	Average Allowance Increases Since Benefit Effective Date	Average Purchasing Power of Current Allowance	Average Increase Needed to Restore Full Purchasing Power	Average Annual Supplemental Increase
(1)	(2)	(3)	(4)	(5)	(6)
1987	104.5%	49.7%	73.2%	36.6%	$3,975
1988	95.4%	47.4%	75.5%	32.6%	$3,290
1989	85.5%	45.7%	78.5%	27.3%	$2,227
1990	77.1%	43.7%	81.1%	23.2%	$1,357
1991	**69.7%**	**43.0%**	**84.3%**	**18.7%**	**$273**
1992	63.8%	40.8%	85.9%	16.3%	$0
1993	59.7%	38.6%	86.8%	15.2%	$0
1994	57.8%	36.9%	86.7%	15.3%	$0
1995	54.2%	34.8%	87.4%	14.4%	$0
1996	51.8%	32.7%	87.4%	14.4%	$0
1997	48.6%	30.7%	88.0%	13.7%	$0
1998	45.3%	29.1%	88.8%	12.5%	$0
1999	41.7%	26.4%	89.2%	12.1%	$0
2000	36.7%	24.6%	91.1%	9.7%	$0
2001	29.8%	23.8%	95.3%	4.8%	$0
2002	27.9%	21.5%	95.0%	5.3%	$0
2003	25.2%	19.3%	95.3%	4.9%	$0
2004	21.4%	17.0%	96.4%	3.8%	$0
2005	18.1%	14.9%	97.3%	2.8%	$0
2006	12.7%	12.7%	100.0%	0.0%	$0
2007	9.4%	10.5%	101.0%	–1.0%	$0
2008	4.1%	8.4%	104.1%	–4.0%	$0
2009	5.7%	6.2%	100.5%	–0.5%	$0
2010	4.7%	4.0%	99.4%	0.7%	$0
2011	1.9%	2.0%	100.1%	–0.1%	$0
2012	1.5%	0.0%	98.5%	1.5%	$0
2013	1.1%	0.0%	98.9%	1.1%	$0

Explanation of source and/or calculation of data in columns 3, 4 and 5:

Column 3—Increases from all sources as a percentage of initial allowance. Obtained by dividing total current allowance by total initial allowance and adjusting to a percentage.

Column 4—Purchasing Power as of June 2012. Obtained by dividing total current allowance payable by full CCPI adjusted allowance. Based on totals forall benefit types by calendar year of effective date.

Column 5—Percentage increase in current allowance payable required to restore full 100 percent purchasing power as of June 2012. Obtained by dividing the fully adjusted CCPI allowance factor (column 2) by the percentage increase to date (column 3) and adjusting to a percentage. Example: (825.2 + 100) / (305.4 + 100) = 2.282 x 100 = 128.2 percent.

Table 13 Restoration of Allowance Purchasing Power Through Supplemental Benefit Payments

Retirees' Purchasing Power Protection Account Payments						
				Income Source		
Year	Purchasing Power	Count	Total $ Paid	School Lands	Investment Earnings	General Fund
83–84	58.40%	35,654	$21,394,183	$n/a	$894,183	$20,500,000
84–85	62.40%	57,189	54,306,976	10,119,124	2,426,456	41,761,396
85–86	65.50%	56,811	85,675,243	7,770,757	3,994,458	73,910,028
86–87	68.20%	57,343	122,275,289	4,167,970	5,511,448	112,595,871
87–88	68.20%	59,092	128,231,357	6,083,374	5,317,456	116,830,527
88–89	68.20%	58,037	143,061,285	4,479,266	5,956,019	132,626,000
89–90	68.20%	55,971	158,274,048	2,751,075	n/a	155,522,973[1]
Supplemental Benefit Payments						
				Income Source		
Year	Purchasing Power	Count	Total $ Paid	School Lands	Teachers' Retirement Fund	SBMA
90–91	68.20%	52,199	$168,922,827	$2,964,211	$111,103,596	$54,855,020
91–92	68.20%	48,650	178,057,887	2,913,338	56,985,521	118,159,028
92–93	68.20%	54,029	184,551,442	6,658,800	0	177,892,642
93–94	68.20%	49,113	178,886,980	4,225,808	0	174,661,172
94–95	68.20%	46,459	168,359,918	4,973,687	0	163,386,231
95–96	68.20%	41,703	168,517,183	1,171,779	0	167,345,404
96–97	68.20%	38,939	159,786,521	1,870,825	0	157,915,696
97–98	68.2%[2]/75.0%	44,887	179,308,000	2,586,920	0	176,721,080
98–99	75.00%	42,624	197,860,324	4,168,363	0	193,691,961
99–00	75.00%	41,048	190,478,334	2,704,171	0	187,774,163
00–01	75.00%	44,699	189,388,495	4,023,007	0	185,365,488
01–02[3]	80.00%	60,428	256,976,205	7,967,992	0	249,008,212
02–03	80.00%	58,591	233,814,578	3,543,362	0	230,271,216
03–04	80.00%	55,779	223,501,415	2,922,844	0	220,578,571
04–05	80.00%	57,079	221,271,471	3,318,095	0	217,953,375
05–06	80.00%	54,360	215,257,813	4,301,959	0	210,955,854
06–07	80.00%	56,002	230,336,755	6,205,860	0	224,130,894
07–08	80.00%	53,122	229,860,350	6,522,856	0	223,337,493
08–09	85.00%[4]	89,142	348,105,380	7,036,201	0	341,069,179
09–10	85.00%	63,949	272,579,523	6,334,670	0	266,244,852
10–11	85.00%	53,870	237,572,962	1,929,606	0	235,643,356
11–12	85.00%	57,337	234,612,294	5,227,046	0	229,385,248
12–13	85.00%	54,847	221,451,056	10,277,064	0	211,173,992

[1]The 89-90 appropriation was from the Teachers' Retirement Fund. This amount plus regular interest was repaid from General Fund contributions to the SBMA.

[2]percentage changed to 75% effective 1/1/98 and payable 4/1/98 (Chapter 939, Statutes of 1997)

[3]Percentage changed to 80% effective 1/1/2002 and payable 10/1/2001 (Chapter 840, Statutes of 2001)

[4]Percentage changed to 85% effective 9/30/2008 and payable 10/1/2008 (Chapter 751, Statutes of 2008)

DEFINED BENEFIT SUPPLEMENT PROGRAM

Table 1 Changes in Net Position
(dollars in millions)[1]

Fiscal Year Ending June 30	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Additions										
Member Contributions	$82.5	$44.9	$341.9	$651.5	$700.8	$684.8	$638.5	$599.1	$574.1	$565.8
Employer Contributions	78.3	57.7	68.9	145.3	121.2	117.6	111.4	104.0	95.6	125.3
Investment Income	1,092.8	139.1	1,514.0	712.9	(1,122.5)	(387.8)	798.1	339.0	235.5	247.6
Total Additions	**$1,253.6**	**$241.7**	**$1,924.8**	**$1,509.7**	**($300.5)**	**$414.6**	**$1,548.0**	**$1,042.1**	**$905.2**	**$938.7**
Deductions										
Benefit Payments to Members	$279.3	$223.4	$249.9	$223.7	$156.4	$139.4	$97.2	$98.0	$75.4	$42.0
Refunds of Member Contributions	25.1	24.4	26.0	13.7	29.8	17.7	18.0	14.0	8.6	3.1
Administration Expenses	7.5	6.9	6.1	6.1	3.4	2.9	2.5	2.0	1.7	1.2
Other Expenses	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Deductions	**$311.9**	**$254.7**	**$282.0**	**$243.5**	**$189.6**	**$160.0**	**$117.7**	**$114.0**	**$85.7**	**$46.3**
Change in Net Position	**$941.7**	**($13.0)**	**$1,642.8**	**$1,266.2**	**($490.1)**	**$254.6**	**$1,430.3**	**$928.1**	**$819.5**	**$892.4**

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

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

Fiscal Year Ending June 30	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Type of Benefit										
Age & Service Benefits										
Retired Members	$260.5	$206.9	$233.6	$205.8	$146.7	$129.6	$91.3	$94.0	$71.4	$39.0
Survivors	9.6	0.9	1.2	1.2	0.6	0.4	0.2	0.1	0.0	0.2
Death	0.0	5.6	5.8	7.6	4.3	4.2	2.6	1.9	2.0	1.1
Disability Benefits										
Retired Members	9.2	10.0	9.4	9.1	4.8	5.2	3.1	2.0	2.0	1.6
Total Benefits	**$279.3**	**$223.4**	**$250.0**	**$223.7**	**$156.4**	**$139.4**	**$97.2**	**$98.0**	**$75.4**	**$42.0**
Type of Refund										
Separation	$25.1	$24.4	$26.0	$13.7	$29.8	$17.7	$18.0	$14.0	$8.6	$3.1
Total Refunds	**$25.1**	**$24.4**	**$26.0**	**$13.7**	**$29.8**	**$17.7**	**$18.0**	**$14.0**	**$8.6**	**$3.1**

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

DEFINED BENEFIT SUPPLEMENT PROGRAM

Table 3 Members Retired for Service During Fiscal Year 2012–13[1], Classified by Age and Option Elected

		Regular Annuity				Period Certain							
Age	**Total**	**Single Life with Cash**	**100% Joint and Survivor**	**75% Joint and Survivor**	**50% Joint and Survivor**	**10 Years**	**9 Years**	**8 Years**	**7 Years**	**6 Years**	**5 Years**	**4 Years**	**3 Years**
Under 55	24	10	3	0	1	0	0	0	0	0	5	1	4
55	328	118	44	6	12	49	2		5	4	37	17	34
56	170	43	14	3	5	40	5	4	2	4	20	6	24
57	234	50	35	6	7	41	3	9	4	4	36	6	33
58	303	61	45	6	9	60	6	1	13	8	46	6	42
59	501	106	57	9	22	100	5	5	8	26	93	9	61
60	697	141	87	17	33	178	7	4	21	13	115	14	67
61	1,078	200	171	26	48	263	32	9	24	26	151	39	89
62	777	192	93	26	38	164	9	18	17	8	97	20	95
63	686	170	84	14	30	154	13	7	21	16	100	22	55
64	466	126	58	13	19	94	4	5	9	10	74	10	44
65	498	137	71	16	23	96	5	1	6	6	85	8	44
66	361	110	54	6	23	75	5	1	6	4	36	12	29
67	195	66	17	7	11	37	2	4	2	2	26	4	17
68	162	49	16	2	8	36	2	0	2	1	24	2	20
69	137	39	14	2	3	46	2	0	5	3	11	2	10
70	97	33	9	2	6	26	1	0	1	2	7	1	9
71	57	19	3	0	2	18	0	0	0	1	9	1	4
72	50	17	9	2	3	10	1	0	2	0	1	0	5
73	29	10	1	1	2	9	0	0	0	0	3	1	2
74	19	5	2	0	0	5	0	0	0	1	3	1	2
75 and over	62	15	7	4	5	10	1	0	3	0	10	1	6
Age Unknown	0												
Total	**6,931**	**1,717**	**894**	**168**	**310**	**1,511**	**105**	**68**	**151**	**139**	**989**	**183**	**696**

[1]Does not include formerly disabled members.

DEFINED BENEFIT SUPPLEMENT PROGRAM

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

Fiscal Year Ending June 30	Count	Average Monthly Retirement Annuity	Average Accumulated Credits[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
2012	40,493	250	13,133	62.0
2013	45,110	254	14,088	62.1

[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 Credits[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
2012	747	239	10,404	55.5
2013	977	244	11,495	55.6

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

Table 6 Retired Members by Type of Benefit and Option Selected

(as of June 30, 2013)

	Monthly Member-Only Benefit					
Type of Benefit	**Less than $250**	**$250–500**	**$500–750**	**$750–1,000**	**$1,000 & Greater**	**Total**
Retirement	28,893	11,273	3,514	910	520	45,110
Disability	659	220	73	15	10	977
Survivors	550	195	63	22	10	840
Total	**30,102**	**11,688**	**3,650**	**947**	**540**	**46,927**
Type of Payment						
Regular Annuity						
Single Life Without Cash	1,109	1	0	0	0	1,110
Single Life With Cash	12,370	983	77	17	1	13,448
100% J&S	7,417	806	69	12	9	8,313
75% J&S	921	125	20	3	1	1,070
50% J&S	2,279	249	33	5	2	2,568
Period-Certain Annuity						
10 Year	4,485	3,626	424	108	50	8,693
9 Year	319	313	50	5	8	695
8 Year	143	259	25	7	4	438
7 Year	182	505	92	23	9	811
6 Year	128	568	145	15	12	868
5 Year	441	3,530	1,448	268	135	5,822
4 Year	52	287	299	56	28	722
3 Year	256	436	968	428	281	2,369
Total	**30,102**	**11,688**	**3,650**	**947**	**540**	**46,927**

CASH BALANCE BENEFIT PROGRAM

Table 1 Changes in Net Position
(dollars in thousands)

Fiscal Year Ending June 30	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Additions										
Participant Contributions	$6,963.4	$5,824.0	$6,386.0	$6,486.2	$7,481.4	$6,921.4	$5,952.9	$5,503.4	$4,149.1	$3,866.6
Employer Contributions	6,461.8	6,022.0	6,503.0	6,712.5	7,489.5	7,497.2	5,930.5	5,102.3	4,490.1	3,844.9
Investment Income	22,270.2	(199.0)	27,823.0	12,648.1	(19,727.8)	(6,994.7)	14,093.1	6,111.4	4,540.2	5,384.4
Other Income	18.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Additions	**$35,713.7**	**$11,647.0**	**$40,712.0**	**$25,846.8**	**($4,756.9)**	**$7,423.9**	**$25,976.5**	**$16,717.1**	**$13,179.4**	**$13,095.9**
Deductions										
Benefit Payments to Participant[1]	$3,329.3	$3,582.0	$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]
Refunds of Participant Contributions	1,692.2	1,160.0	1,305.0	1,090.5	1,054.4	608.1	664.3	472.4	244.8	196.7
Administration Expense	160.5	133.0	114.0	112.7	65.5	52.1	44.1	36.0	34.0	27.7
Total Deductions	**$5,182.0**	**$4,875.0**	**$3,882.0**	**$3,222.6**	**$2,341.8**	**$1,713.5**	**$1,592.3**	**$1,838.1**	**$1,514.0**	**$804.7**
Change in Net Position	**$30,531.7**	**$6,772.0**	**$36,830.0**	**$22,624.2**	**($7,098.7)**	**$5,710.4**	**$24,384.2**	**$14,879.0**	**$11,665.4**	**$12,291.2**

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

[1]Benefit payments include member elected administrative transfers to purchase service credit in the Defined Benefit program.

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

Fiscal Year Ending June 30	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Type of Benefit										
Age & Service Benefits										
Retired Members[1]	$3,080.8	$3,287.1	$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]
Death	244.4	300.1	301.2	216.5	397.9	59.8	48.0	91.4	92.0	44.9
Disability Benefits										
Retired Members	4.1	(5.4)	0.0	0.0	0.0	0.0	5.8	1.3	0.0	0.0
Total Benefits	**$3,329.3**	**$3,581.8**	**$2,463.0**	**$2,019.4**	**$1,221.9**	**$1,053.3**	**$883.4**	**$1,329.7**	**$1,235.2**	**$580.3**
Type of Refund										
Separation	$1,692.2	$1,160.0	$1,305.4	$1,090.5	$1,054.4	$608.1	$664.3	$472.4	$244.8	$196.7
Total Refunds	**$1,692.2**	**$1,160.0**	**$1,305.4**	**$1,090.5**	**$1,054.4**	**$608.1**	**$664.3**	**$472.4**	**$244.8**	**$196.7**

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

[1]Benefit payments include member elected administrative transfers to purchase service credit in the Defined Benefit program.

Table 3 Participants Retired for Service During the 2012–13 Fiscal Year[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	2	2											
58	0												
59	0												
60	2	2											
61	2										1		1
62	1	1											
63	1										1		
64	0												
65	2				1						1		
66	3	1							1				1
67	1												1
68	0												
69	3		2			1							
70	3	1						1					1
71	1												1
72	1					1							
73	3		1			1							1
74	1										1		
75	0												
Over 75	4									1	2		1
Total	**30**	**7**	**3**	**0**	**1**	**3**	**0**	**1**	**1**	**1**	**6**	**0**	**7**

[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

CASH BALANCE BENEFIT PROGRAM

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

Fiscal Year Ending June 30	Average Age At Retirement	Average Annuitant Reserve	Average Monthly Annuity
2002	—	—	—
2003	—	—	—
2004	67.8	$10,344	$134
2005	65.0	13,187	191
2006	67.5[1]	11,596	185
2007	66.9	10,892	183
2008	67.2	12,400	206
2009	67.3	13,054	201
2010	68.1	12,701	204
2011	67.8	13,388	215
2012	67.7	15,945	233
2013	67.1	18,442	263

[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	76	27	15	1	4	123
Disability	0	0	0	0	0	0
Survivors	2	1	0	0	0	3
Total	**78**	**28**	**15**	**1**	**4**	**126**
Type of Payment						
Regular Annuity						
Single Life Without Cash	2	0	0	0	0	2
Participant Only	39	4	2	0	0	45
100% Beneficiary Annuity	8	1	0	0	0	9
70% Beneficiary Annuity	0	0	0	0	0	0
50% Beneficiary Annuity	2	2	0	0	0	4
Period-Certain Annuity						
10 Year	16	5	2	0	0	23
9 Year	2	0	0	0	0	2
8 Year	0	1	0	0	0	1
7 Year	1	2	0	0	0	3
6 Year	0	2	1	0	0	3
5 Year	4	7	3	0	1	15
4 Year	0	1	1	0	0	2
3 Year	4	3	6	1	3	17
Total	**78**	**28**	**15**	**1**	**4**	**126**

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

	2012–13			2003–04		
Participating Employers	**Covered Employees**	**Rank**	**Percentage of Total System**	**Covered Employees**	**Rank**	**Percentage of Total System**
Los Angeles CCD	4,442	1	12.81%	1,213	6	6.07%
Contra Costa CCD	2,291	2	6.61	1,593	1	7.97
Peralta CCD	2,228	3	6.42	1,404	4	7.03
West Contra Costa Unified	2,137	4	6.16	1,473	2	7.37
City College of San Francisco	1,878	5	5.42	1,407	3	7.04
San Jose/Evergreen CCD	1,749	6	5.04	1,128	7	5.65
Chabot-Las Positas CCD	1,706	7	4.92	1,389	5	6.95
Foothill De Anza CCD	1,453	8	4.19	913	9	4.57
Santa Rosa Junior College	1,406	9	4.05	978	8	4.90
Glendale CCD	1,385	10	3.99	873	10	4.37
Top 10 Total	20,675		59.62	12,371		61.93
All Other	14,004		40.38	7,606		38.07
Total Covered Employees	**34,679**		**100.00%**	**19,977**		**100.00%**

PROGRAMS ADMINISTERED OR OVERSEEN BY THE RETIREMENT SYSTEM (PENSION2)

Table 1A Changes in Net Position for Pension2 IRC 403(b) Plan

(dollars in thousands)[2]

Fiscal Year Ending June 30	2013	2012	2011	2010	2009[2]	2008[2]	2007	2006	2005	2004
Additions										
Participant Contributions	$57,273	$53,111	$47,181	$53,536	$42,966	$26,289	$23,338	$21,509	$20,379	$19,535
Interest, Dividends and Investment Income	43,151	6,132	43,782	17,175	(28,479)	(12,569)	22,793	10,245	6,143	9,754
Other Income	269	188	225	0	0	17	16	0	0	0
Total Additions	**$100,693**	**$59,431**	**$91,188**	**$70,711**	**$14,487**	**$13,737**	**$46,147**	**$31,754**	**$26,522**	**$29,289**
Deductions										
Distributions and Withdrawals[1]	$25,727	$19,978	$16,690	$11,892	$8,644	$9,570	$8,451	—	—	—
Benefit Payments to Participant	0	0	0	0	0	0	0	$2,286	$2,645	$1,617
Refunds of Participant Contributions	0	0	0	0	0	0	0	7,481	6,131	6,440
Administration Expenses	754	606	538	374	278	526	782	935	917	807
Total Deductions	**$26,481**	**$20,584**	**$17,228**	**$12,266**	**$8,922**	**$10,096**	**$9,233**	**$10,702**	**$9,693**	**$8,864**
Change in Net Position	**$74,212**	**$38,847**	**$73,960**	**$58,445**	**$5,565**	**$3,641**	**$36,914**	**$21,052**	**$16,829**	**$20,425**

[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 fiscal years 2007/2008 and 2008/2009.

Table 1B Changes in Net Position for Pension2 IRC 457 Plan

(dollars in thousands)

Fiscal Year Ending June 30	2013	2012	2011	2010	2009
Additions					
Participant Contributions	$2,591	$6,877	$1,289	$674	$37
Interest, Dividends and Investment Income	1,081	219	155	60	1
Other Income	37	37	42	0	0
Total Additions	**$3,709**	**$7,133**	**$1,486**	**$734**	**$38**
Deductions					
Distributions and Withdrawals	$530	$19	$82	$0	$0
Benefit Payments to Participant	0	0	0	0	0
Refunds of Participant Contributions	0	0	0	0	0
Administration Expenses	22	8	2	0	0
Total Deductions	**$552**	**$27**	**$84**	**$0**	**$0**
Change in Net Position	**$3,157**	**$7,106**	**$1,402**	**$734**	**$38**

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

PROGRAMS ADMINISTERED OR OVERSEEN BY THE RETIREMENT SYSTEM (PENSION2)

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

	2013			2006		
Plan Name	Participating Employees	Rank	Percentage	Participating Employees	Rank	Percentage
Los Angeles USD	4,723	1	42.32%	525	1	14.47%
San Diego City USD	179	2	1.60	65	2	1.79
Fremont Unified School District	158	3	1.42			
Los Angeles Community College District	144	4	1.29			
City College of San Francisco	114	5	1.02			
Long Beach Unified	101	6	0.91	43	4	1.18
San Francisco USD	92	7	0.82	44	3	1.21
Sacramento City USD	89	8	0.80	42	5	1.16
San Juan Unified	83	9	0.74	29	9	0.80
Elk Grove Unified	69	10	0.62			
San Diego Community College	67	11	0.60			
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
Total Top Ten	5,752					
All Other	5,408		48.46	2,752		75.83
Total (745 employers)	**11,160**		**100.00%**	**3,872**		**100.00%**

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

MEDICARE PREMIUM PAYMENT PROGRAM

Table 1 Changes in Net Position
(dollars in thousands)

Fiscal Year Ending June 30	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Additions										
Employer Contributions	$35,022	$34,614	$36,145	$31,749	$29,962	$33,239	$32,257	$29,602	$28,483	$26,496
Interest, Dividends and Investment Income	6	8	10	33	106	205	240	143	87	41
Other Income	0	0	0	0	0	0	0	0	(158)	8
Total Additions	**$35,028**	**$34,622**	**$36,155**	**$31,782**	**$30,068**	**$33,444**	**$32,497**	**$29,745**	**$28,412**	**$26,545**
Deductions										
Premiums Paid	$34,702	$34,412	$35,785	$35,421	$29,415	$32,689	$31,270	$29,313	$27,416	$25,648
Administration Expenses	340	370	345	309	316	334	190	359	429	373
Total Deductions	**$35,042**	**$34,782**	**$36,130**	**$35,730**	**$29,731**	**$33,023**	**$31,460**	**$29,672**	**$27,845**	**$26,021**
Change in Net Position	**($14)**	**($160)**	**$25**	**($3,948)**	**$337**	**$421**	**$1,037**	**$73**	**$567**	**$524**

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

Fiscal Year Ending June 30	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Type of Benefit										
Age & Service Benefits										
Retired Members	$34,702	$34,412	$35,785	$35,421	$29,415	$32,689	$31,270	$29,313	$27,416	$25,648
Total Benefits	**$34,702**	**$34,412**	**$35,785**	**$35,421**	**$29,415**	**$32,689**	**$31,270**	**$29,313**	**$27,416**	**$25,648**

MEDICARE PREMIUM PAYMENT PROGRAM

Table 3 Retired Members Enrolled in Medicare Premium Payment Program During Fiscal Year 2012–13 Classified by Age at Retirement

Age	Total
<55	5
55–56	28
56–57	18
57–58	23
58–59	17
59–60	38
60–61	59
61–62	48
62–63	27
63–64	12
64–65	7
65–66	4
66–67	7
67–68	4
68–69	1
69–70	1
70–71	2
71–72	1
72–73	1
73–74	1
74–75	0
>=75	1
Grand Total	**305**

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
2012	60.3	417
2013	60.3	413

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