

*I'm  
concerned  
about...*

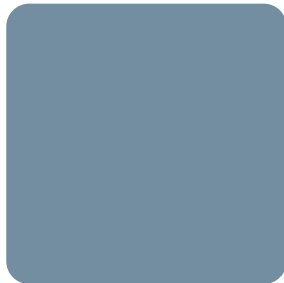


*I'd like  
to see...*



2004  
your voice; our commitment

*Can you  
help?*



*I have  
another  
idea...*





your voice; **our commitment**

CalSTRS is listening to our members' opinions and ideas through focus groups, questionnaires, surveys, e-mails and phone calls. Comments, suggestions and complaints are forwarded to the appropriate staff to review for improvements to our processes, policies and behavior.

As part of CalSTRS commitment to its members, we have selected four organizational outcomes to help guide our decisions. They are now part of CalSTRS culture. Each new project must show it supports one or more outcome before it is approved.

The four outcomes are:

**Rock Solid:** *A financially sound, respected investment portfolio*

**Trusted Guide:** *Members well prepared for a secure and rewarding future*

**No Surprises:** *Timely, accurate and understandable payments the first time, every time*

**One and Done:** *Correct, consistent, complete and compassionate responses to every inquiry*



**CALSTRS**  
HOW WILL YOU SPEND YOUR FUTURE?

California State Teachers' Retirement System

## *Comprehensive Annual Financial Report*

*For fiscal year ended June 30, 2004*

*A Component Unit of the State of California*

Prepared by the staff of the  
California State Teachers' Retirement System  
7667 Folsom Boulevard  
Sacramento, CA 95826  
800.228.5453  
[www.calstrs.com](http://www.calstrs.com)

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# Award: GFOA Certificate

## Certificate of Achievement for Excellence in Financial Reporting

Presented to

### California State Teachers' Retirement System

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2003

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



*Nancy L. Zielle*

President

*Jeffrey R. Enow*

Executive Director

# CALSTRS

HOW WILL YOU SPEND YOUR FUTURE?

December 20, 2004

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



I am pleased to present the Comprehensive Annual Financial Report of the California State Teachers' Retirement System for the fiscal year ended June 30, 2004.

CalSTRS is one of the nation's oldest teacher pension systems, beginning in the earliest days of employers' concern for the welfare of the employees and their retirement. Over the years, great advances have been made in improved benefits and services to our members. Those advances continue as we actively seek our members' opinions on how we can serve them better. Our

commitment to fulfilling our mission, "securing the financial future and sustaining the trust of California's educators," depends on listening to our members. Therefore, we have established the Voice of the Customer Program. This initiative ensures we hear from our members through focus groups and surveys so we can meet their financial retirement needs. Throughout this report are examples of the feedback we have received and our commitment to our customers.

The 2004 CAFR contains the following sections:

The **introductory section** includes this letter of transmittal, administrative organization details and a review of CalSTRS activities.

The **financial section** includes the report of the independent auditor, the Management's Discussion and Analysis, the system's financial statements and supplemental information for the State Teachers' Retirement Plan and CalSTRS Voluntary Investment Program.

The **investment section** contains a consultant's report summarizing investment activity. It also contains an explanation of investment policy, portfolio performance information and various investment schedules for the State Teachers' Retirement Plan, including investment of the Defined Benefit Supplement and Cash Balance Benefit programs contributions. Investment information is not included for the CalSTRS Voluntary Investment Program since all investments are member-directed into mutual funds.

The **actuarial section** includes the actuary's certification letters and summaries for the CalSTRS Defined Benefit, Defined Benefit Supplement and Cash Balance Benefit programs, in addition to the results of the latest actuarial valuations.

The **statistical section** includes information on the CalSTRS Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program and CalSTRS Voluntary Investment Program.

Responsibility for both the accuracy and completeness of the financial data and the fairness of the presentation rests with me and the management of CalSTRS.

CalSTRS members, as of June 30, 2004, included employees of approximately 1,200 school districts, community college districts, county offices of education and regional occupational programs (listed starting on page 92).

## Financial

The basic financial statements have been prepared in accordance with generally accepted accounting principles applied on a consistent basis as promulgated by the Governmental Accounting Standards Board and its predecessor, the National Council on Governmental Accounting. The Management's Discussion and Analysis provides a narrative introduction, overview, and analysis to accompany the basic financial statements. This Letter of Transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the report of the independent auditors.

## Investments

The CalSTRS investment portfolio has fully recovered from the 2000-02 bear market and Internet/high tech bubble. In fiscal year 2003-04 the investment portfolio generated a spectacular 17.4 percent investment return and hit an all-time high of \$116 billion, exceeding the previous high set in mid-2000. Diversification and strategic rebalancing of the portfolio helped CalSTRS recover faster than most state pension plans and institutional investors.

Fiscal year 2003-04 saw an investment market divided into two distinct periods. The first half of the year, July to December 2003, the U.S. and Non-U.S. equity market climbed in value. However, during the second half of the year, the market traded sideways as uncertainty built. CalSTRS' diversification across industry sectors and different types of investments produced a lower risk and higher return portfolio.



*I hope...*

*your voice;*

*"I hope this survey indicates a renewed commitment to customer service."*

*our commitment*

CalSTRS is dedicated to delivering great customer service; not just doing things right, but doing the right things. Our annual survey identifies weak areas. Corrections are made before the next survey so we can measure our continued improvements.

## Funding

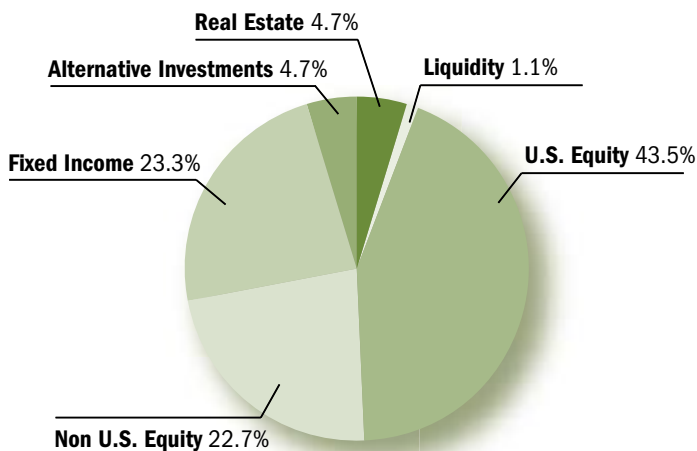
The most recent actuarial valuation, as of June 30, 2003, shows that the Defined Benefit Program has an unfunded actuarial obligation of \$23.1 billion, having 82 percent of the funds needed to pay the cost of the benefit plan in effect on June 30, 2003. Under California state law, the Defined Benefit Program receives contributions from members and employers set at a percentage of the member's earnings plus state General Fund contributions from the fiscal year ending in the prior calendar year (see page 20). The cost of administering the State Teachers' Retirement Plan is financed through the investment earnings of the plan.

## Award

The Government Finance Officers Association of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to the California State Teachers' Retirement System for its comprehensive annual financial report for the year ended June 30, 2003. This was the ninth consecutive year that CalSTRS has achieved this prestigious award.

In order to be awarded the Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to meet the Certificate of Achievement Program requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

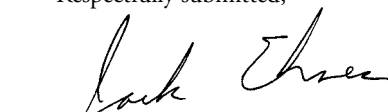
**Asset Allocation as of June 30, 2004**  
Total investment portfolio of \$116.2 billion



## Acknowledgments

The compilation of this comprehensive annual financial report reflects the combined effort of CalSTRS staff under the leadership of the Teachers' Retirement Board. I commend their efforts on creating another outstanding report. In addition, I take this opportunity to express my gratitude to the staff, advisors and the many other people and organizations who have worked so diligently to assure the successful operation of the California State Teachers' Retirement System.

Respectfully submitted,

  
Jack Ehnes  
Chief Executive Officer

# Teachers' Retirement Board as of June 30, 2004



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



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



**Phil Angelides**  
State Treasurer  
Ex-Officio Member



**Donna Arduin**  
Director of Finance  
Ex-Officio Member



**Mark Battey**  
Public Representative  
Term: 3/1/04 – 12/31/07



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



**Jim Gray**  
Governing Board Representative  
Desert Community College  
Board of Trustees  
Term: 3/1/04 – 12/31/07



**Gloria Hom**  
Retiree Representative  
Term: 3/1/04 – 12/31/07



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



**Miguel Pulido**  
Public Representative  
Term: 3/1/04 – 12/31/05



**Kathleen Smalley**  
Public Representative  
Term: 3/1/04 – 12/31/06



**Steve Westly**  
State Controller  
Ex-Officio Member

## *Current Executive Staff*



**Christopher Waddell**  
General Counsel

**Christopher J. Ailman**  
Chief Investment Officer

**Jack Ehnes**  
Chief Executive Officer

**Ed Derman**  
Deputy Chief Executive Officer  
*Plan Design and Communication*

**Christine Ford**  
Deputy Chief Executive Officer  
*Administration*

**Peggy Plett**  
Deputy Chief Executive Officer  
*Benefits and Services*

**Janice Hanson**  
Acting Deputy Chief Executive Officer  
*Enterprise Initiatives and Technology*

## Professional Services

CalSTRS contracts for the services of various independent consultants essential to the effective and professional operation of the system. Milliman provides actuarial services and the independent auditor is Macias Gini & Company 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. A partial list of independent consultants is shown.

- Cambridge Associates LLC
- Hogan and Hartson
- Liebman & Associates
- Milliman
- Thomas/Ferrous



*I had questions...*

## Year in Review

### Membership

Membership in the CalSTRS Defined Benefit Program includes California public school employees, kindergarten through community college, who teach, are involved in the selection and preparation of instructional materials, or are supervising persons engaged in those activities.

Membership is in effect as long as the contributions remain on deposit with the program.

Members are employed in approximately 1,200 public school districts, community college districts, county offices of education and state reporting entities in California. The CalSTRS Defined Benefit Program includes service retirement, benefits for survivors and disability benefits.

A beneficiary of a retired member who has elected a joint and survivor option receives a continuing lifetime allowance upon the retired member's death.

As of June 30, 2004, there were a total of 444,680 active, 116,128 inactive members and 193,245 retired members, disability and survivor benefit recipients. The combined total of members and benefit recipients equals 754,053, an increase of 19,090 from the previous fiscal year.

(The financial statements, presented in the financial section, contain Defined Benefit Program membership data as of June 30, 2003, due to the timing of the independent auditor's report.)

### Benefits to Members and Benefit Recipients

#### *Service Retirement*

CalSTRS is committed to providing exceptional service to its retiring members in keeping with the System's values. The staff provides timely and accurate payments and information about application and benefit payment processes.

In 2003–04 we saw a 9 percent increase in the number of applications submitted over the previous year. Of the 12,301 members who retired, 99 percent received their first month's payment within 30 days following the effective date of their retirement.

### **Survivor Benefits**

CalSTRS received 6,131 survivor benefits applications, which is an increase of 4 percent over last year. Of the applications received, 100 percent were processed within the 45-day legislative standard and 95 percent were processed within 30 days from the receipt of the last required documentation.

### **Disability**

CalSTRS received 839 disability applications during the 2003-04 fiscal year.

With a strong commitment to member service, the Initial Review Team processed 97.2 percent of all applications within six months from the date of receipt.

The work of the Continuing Qualifications and Vocational Rehabilitation programs resulted in an annual savings of nearly \$1.5 million to CalSTRS.



*your voice;*

*"I had multiple questions and my e-mail inquiry was answered through a telephone call to my home. It was the only way to answer all my questions. Thank you."*

*our commitment*

CalSTRS uses multiple touch points to reach members to inform, educate and answer questions about their retirement, disability and survivor benefits: biannual newsletter, Member Handbook, financial education workshops, benefit counselors, Web site, e-mail and by telephone.

## **Services to Members and Beneficiaries**

### **Customer Service**

Call Center staff answered 254,390 calls and the CalSTRS automated attendant telephone system received 29,477 inquiries. The automated interactive telephone system, allowing members to hear account-specific information, received 49,962 calls. CalSTRS is proud of the fact that 98 percent of the incoming telephone calls were answered in the initial call, thus avoiding the need to call the member back. Eighty-six percent of all calls were answered within three minutes or less and 70 percent were answered within one minute or less.

The Correspondence Center received 2,120 pieces of mailed correspondence and 25,927 e-mails from members and other interested parties. Average response rates were 52 percent of correspondence completed within three business days and 80 percent of e-mails answered within one business day.

### **Member Communication**

CalSTRS communicates twice a year with members and beneficiaries through the *CalSTRS Connections* and the *Retired Educator* newsletters.

*CalSTRS Connections* is mailed in spring and fall to active and inactive members. Issues contain helpful information on financial education, retirement planning, legislative summaries and articles concerning educators.

The *Retired Educator* is mailed in summer and winter to inform retired members and benefit recipients of matters of special interest to them.

The *Member Handbook* explains all CalSTRS programs. The handbook and single-topic brochures are mailed upon request, given to members during personal interviews, viewed or ordered from our Web site and made available to employers. CalSTRS also mails the *Welcome to CalSTRS* brochure to newly hired educators.

### **Web Site**

The CalSTRS Web site, [www.calstrs.com](http://www.calstrs.com), provides information for members, employers and CalSTRS business partners. Our Web site includes many useful features such as online calculators, which allow members to estimate their retirement benefit and calculate the cost to purchase service credit and to redeposit funds; financial education and workshop information; and a secure site for employers to provide county and school district personnel with pertinent information.

When visiting the CalSTRS Web site, CalSTRS members can register for a secure, online service called *myCalSTRS*. This tool gives members access to personal account information.

**Active Members**



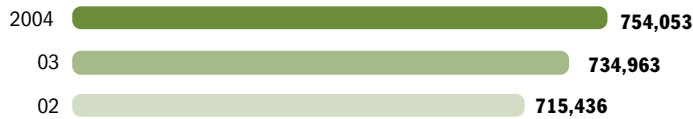
**Inactive Members**



**Benefit Recipients**



**Total Members and Benefit Recipients**



**Benefits Counseling**

Personal retirement counseling was provided to 37,021 members at over 30 locations throughout California. In addition, 1,916 members chose an alternative to a face-to-face appointment with a benefits counselor and received retirement counseling through a telephone appointment. Counseling gives members the opportunity to work toward completing their retirement planning.

**Workshops**

CalSTRS presented 546 workshops to 16,789 members. Twenty-seven workshops included customized content designed specifically for members in the beginning or middle of their careers covering basic benefit information, advantages of early retirement planning and managing one’s finances. The remaining workshops included content designed for members nearing retirement, covering detailed benefit information, working after retirement and the retirement process. Workshops allow members to have direct contact with staff who answer their questions.

**Optional Member Programs**

**Cash Balance Benefit Program**

The Cash Balance Benefit Program is a defined benefit plan that is optional to school districts, community college districts and county offices of education. Employees are eligible to participate when their employer offers the Cash Balance Benefit Program if they are hired to perform creditable service for less than 50 percent of the full-time equivalent for the position unless the employee also performs creditable service full-time in another position.

**Voluntary Investment Program**

The VIP is CalSTRS’ 403(b) program and is available to certificated or classified employees of any California school district, office of education or community college district. The VIP is a 403(b)(7) plan, which allows employees to invest pre-tax earnings in mutual funds as optional retirement savings.

**Services to Employers, Member and Client Organizations**

Two committees meet regularly to provide a forum for active participation in the formation of CalSTRS policies and procedures in areas of information dissemination, benefit plan administration, and service to members and beneficiaries. The Employer Advisory Committee is composed of county and district employer representatives and CalSTRS staff. The Client Advisory Committee includes CalSTRS staff and members of various organizations representing CalSTRS members and benefit recipients. Since reaching consensus with the two committees on legislative proposals and policy issues is important to the Teachers’ Retirement Board, CalSTRS employees schedule special meetings with both committees to work closely on plan design and other crucial member and employer issues.

Annually, CalSTRS staff hosts an Employer Symposium, giving county and district representatives an opportunity to hear from program specialists, exchange information, ask questions, and to discuss CalSTRS processes, laws and policies.

CalSTRS staff also conducts field visits to individual counties and school districts. These visits provide specific information to the employer regarding CalSTRS’ data reporting process and staff discusses the use of the Remote Employer Access Program. This program allows the employer direct access to the CalSTRS database for verification and review of the member’s service and contribution records, thereby improving the accuracy and timeliness of the reporting process.