Advancing Sustainability Forward
The Comprehensive Annual Financial Report issued by the California State Teachers’ Retirement System details the system’s performance for the fiscal year beginning July 1, 2015, and ending June 30, 2016.

CalSTRS was established a little more than a century ago in 1913 as the pension plan administrator for California’s public school educators and began by representing 120 retired members and 15,000 active members. Over the past 103 years, we have grown to represent more than 900,000 dedicated educators and their families by fulfilling our mission to help them reach a secure retirement future.

And, as a global institutional investor with portfolio assets of $188.7 billion at the end of fiscal year 2015–16, CalSTRS has a fiduciary duty to be principled and effective within our operations in order to meet the financial commitments to our membership for the next century and beyond. By modeling best practices in corporate governance, shareholder influence through proxy voting, risk-mitigating investment strategies, and providing the highest level of customer service for our members, CalSTRS consistently advocates for the importance of corporate sustainability and long-term value creation.

Risk Mitigation Strategies and Investment Returns
This fiscal year’s investment returns of 1.4 percent (net) continued to dip below the actuarially assumed rate of 7.5 percent (net) and emphasize the ongoing importance of implementing risk mitigation strategies within the portfolio. However, the three-year (7.8 percent) and five-year (7.7 percent) performances for the Defined Benefit Fund still surpassed the 7.5 percent assumed return. Slow U.S. and global growth, along with market volatility, left the fund virtually even to where it started the fiscal year in July 2015.

Nonetheless, CalSTRS continues to underscore and emphasize the long-term nature of pension funding as it pertains to investment performance and the need to look beyond the immediate impacts of any single year’s returns. And, although meeting investment assumptions is very important to the overall funding picture, it is just one factor in keeping the plan on track. Factors such as member earnings and career and lifetime longevity also play important roles.

Additionally, as part of the 2015 Asset Allocation Study, in February 2016, the Teachers’ Retirement Board adopted an investment policy and implementation plan allocating up to 9 percent of the investment portfolio to a Risk Mitigating Strategies asset class. Combined, these strategies play an important and complementary role to ensure a stable, risk-adjusted return profile through portfolio diversification. The Risk Mitigating Strategies allocation is also expected to help the portfolio recover losses suffered during a protracted market downturn or recession, as well as provide greater flexibility to adapt to shifting market conditions.
Implementation of the Defined Benefit Program Funding
CalSTRS continues to implement the various elements of the Funding Plan enacted on July 1, 2014, through Chapter 47, Statutes of 2014 (Assembly Bill 1469—Bonta). The 32-year plan includes a model of shared responsibility through fair and gradual contribution rate increases among CalSTRS members, employers and the state. And, due to the parameters outlined in AB 1469, CalSTRS no longer projects a fund depletion date and instead is making progress toward full funding by the year 2046.

While CalSTRS continues to deal with a gap between its current assets and the obligations facing the system, known as the unfunded actuarial obligation (or unfunded liability), the system is still on track to close its shortfall. A snapshot of the Defined Benefit Program’s assets and liabilities as reported in the June 30, 2015, actuarial valuation (released in April 2016) reflects an increase of $3.5 billion in the unfunded liability, now at $76.2 billion. Even though the current funding gap has increased by $3.5 billion since the previous valuation, it is $8.9 billion less than originally forecast when the long-term funding plan was developed in 2013–14. Because of this, the actual funding status has remained stable at 68.5 percent, unchanged since 2014.

Also, it is important to note that these actuarial valuation numbers are computed differently than the Net Pension Liability (NPL) amounts as defined per Governmental Accounting Standards Board standards, which are reported in the Financial Statements (Note 3–Net Pension Liability of Employers and Nonemployer Contributing Entity) section of this report.

UC Berkeley Study Validates Teacher Defined Benefit Pensions Over 401(k) Plans
In February 2016, UC Berkeley released a study titled “Are California Teachers Better Off With A Pension or a 401(k)?,” authored by Nari Rhee, PhD, of the UC Berkeley Center for Labor Research and Education and William Fornia, FSA, of Pension Trustee Advisors. The study, commissioned by CalSTRS and conducted independently by the two authors, focused on the active teaching workforce and evaluated the suitability of CalSTRS defined benefit pension benefits for California’s educators (using current turnover and tenure patterns) in comparison to 401(k) and cash balance plans.

The study showed that for six out of seven teachers, or 86 percent of CalSTRS members, the CalSTRS defined benefit pension provides greater, more secure retirement income compared to a 401(k)-style plan. More specifically, switching to a 401(k) or cash balance plan would sharply reduce the retirement income security of teachers who account for a large majority of the educational workforce in California. In fact, 75 percent of classroom teaching is performed by teachers who will have been covered by CalSTRS for at least 20 years by the time they depart. The study also showed that for those who commit to teaching as a profession, the CalSTRS defined benefit plan is a powerful retention tool that serves their retirement needs well, while offering portability throughout California, the largest education labor market in the U.S.
Focus on Corporate Governance, Accountability and Transparency
The CalSTRS Corporate Governance Program has a suite of priorities that cover a variety of best-practice governance issues. The staff continually focus on executive compensation, diversity on corporate boards, director election standards, and sustainability risk awareness and integration. Corporate Governance staff also exercise CalSTRS’ influence as a prominent shareholder by voting in more than 7,900 domestic and international proxies annually, in addition to evaluating, processing and monitoring securities class actions. These various programs provide yet another layer of risk management strategies and tactics across the portfolio.

In general, the market showed improved governance, accountability and transparency. Certain companies, however, remain outliers by retaining large executive pay packages, lack of board diversity, or archaic governance practices. As a long-term owner and lender to corporations around the world, CalSTRS’ duty is to protect assets through the pursuit of good governance and operational accountability, and we are steadfastly pursuing this charge well into the future.

Transforming Sustainability with Investment Beliefs and Engagement Practices
This year, CalSTRS continued our journey toward transforming to a fully sustainable, global organization. Much of the growth focused on clean energy investments and expanded engagement efforts with stakeholders and business partners. Moreover, CalSTRS engaged our non-investment related business partners in an annual survey to assess levels of sustainable commitment within their organizations. The results were impressively positive, indicating that the shift to embrace sustainable business practices is more than just a trend.

From new legislation to grassroots movements, CalSTRS also continues to address the risk of stranded assets and carbon-based investments. These developments have led us to emphasize and encourage the understanding of the complexities that exist in the investment engagement process as well as to provide further education on divestment actions that were taken. Negotiating today’s challenges requires thoughtful, transparent dialogue. Addressing risk within the portfolio is approached programmatically and methodically through the use of CalSTRS 21 Risk Factors, which assess environmental, social and governance (ESG) investment risks, such as climate change impacts related to coal production, in addition to formal divestment policies. As an influential shareholder, CalSTRS emphasizes engagement first in order to potentially enact change or improvements, an approach that is typically well received by the affected companies within our portfolio.

As a global investor, we recognize that environmental, social and governance factors can have a significant impact on a company’s performance. As organizations such as the Sustainability Accounting Standards Board publish standards across all industry sectors detailing ESG issues of material relevance, that information will greatly enhance investors’ abilities to incorporate the analysis of those risks into their investment strategies.
**Advancing Sustainability Forward**
This past year was a productive one in further establishing our sustainable practices and confirming a secure future for California’s educators. There is still much work ahead. Diligence remains essential to maintain our viability in perpetuity.

We at CalSTRS are stewards of the hard-earned savings that dedicated California educators contribute toward their retirement and entrust to us. CalSTRS is a long-term investor, and ultimately our goal is to generate returns that are sufficient to meet the plan’s liabilities for the benefit of our members.

As with any large, mature financial services organization, the challenges of balancing assets and liabilities, investment gains and losses, and operational growth and long-term value creation guide our business strategies as CalSTRS looks to advance sustainability forward well into the future. An appropriate long-term strategy and vision serve to strengthen our success, with our priority focused on the long-term financial health of the fund.

**Member Profile**
Established 103 years ago, CalSTRS, with a $189.8 billion in net position as of June 30, 2016, is the largest educator-only pension fund in the world. It administers retirement, disability and survivor benefits for California’s public school educators and their beneficiaries, from prekindergarten through community college. The Teachers’ Retirement Law, part of the California Education Code, established the 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, 2016. 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 Crescent City 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 position for the fiscal year ended June 30, 2016. 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. 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 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 1.4 percent net 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.

Statistical Reports
This section includes tables that reflect financial trends of the State Teachers’ Retirement Plan 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 reveals 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 U.S. 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, 2015. This is the 21st 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 (PPCC) presented CalSTRS with its Recognition Award for Funding and Administration for meeting professional standards for funding and administration as set forth in the Public Pension Standards. The Public Pension Coordinating Council is a coalition of three national associations that represent public retirement systems and administrators. The associations that form the PPCC are the National Association of State Retirement Administrators, National Council on Teacher Retirement and National Conference on Public Employee Retirement Systems. Together, these associations represent more than 500 of the largest pension plans in the U.S.

Acknowledgements
The 2016 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 influenced 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 pension system 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
CalSTRS
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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, 2015

Jeffrey E. large
Executive Director/CEO
Public Pension Coordinating Council

Public Pension Standards Award
For Funding and Administration
2016

Presented to

California State Teachers' Retirement System

In recognition of meeting professional standards for
plan funding and 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, 2016)

DANA DILLON  
Board Chair  
K–12 Classroom Teacher  
Term: January 1, 2016 – December 31, 2019

SHARON HENDRICKS  
Board Vice Chair  
Community College Instructor  
Term: January 1, 2016 – December 31, 2019

JOHN CHIANG  
State Treasurer  
Ex-Officio Member

MICHAEL COHEN  
Director of Finance  
Ex-Officio Member

JOY HIGA  
Public Representative  
Term: January 27, 2014 – December 31, 2017

HARRY KEILEY  
K–12 Classroom Teacher  
Term: January 1, 2016 – December 31, 2019

PAUL ROSENSTIEL  
Public Representative  
Term: January 1, 2015 – December 31, 2018

TOM TORLAKSON  
State Superintendent of Public Instruction  
Ex-Officio Member

THOMAS UNTERMAN  
Public Representative  
Term: January 1, 2016 – December 31, 2019

NORA E. VARGAS  
School Board Representative  
Term: January 1, 2016 – December 31, 2019

BETTY YEE  
State Controller  
Ex-Officio Member
Membership

Membership in the CalSTRS Defined Benefit Program includes California public school employees, prekindergarten through community college, who teach or who 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 1,740 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.
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 benefits.

11,374
Members who retired in fiscal year 2015–16

0.85 percent
Increase from fiscal year 2014–15

Disability Benefits
96 percent
Applications processed within 150 days

750
Applications received in 2015–16

562
Applications approved in 2015–16

4 percent
Decrease in number of disability applications received from fiscal year 2014–15

Survivor Benefits
90 percent
Payments processed within 30 days of receiving all necessary information

8,605
Notifications of death received in 2015–16

3.5 percent
Increase in number of notifications from fiscal year 2014–15

Communicating With Our Members and Beneficiaries

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

286,317
Member inquiries answered

57 percent
Member calls answered within 30 seconds

166 seconds
Average wait time to talk with a Contact Center agent

71 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.

73 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 sent in the spring and fall to active and inactive members age 50 and older. It provides information about retirement planning and decisions, workshops and benefits counseling, legislative news and more.

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

Retired Educator is sent 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 Benefit participants receive a personalized Retirement Progress Report that contains retirement planning information and detailed account information as of June 30 for the fiscal year. For Defined Benefit members age 45 and older, the report includes retirement benefit estimates. The reports are available online in September in the member’s myCalSTRS account and are mailed in October if requested. 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 on CalSTRS programs and benefits, including descriptions, eligibility requirements and worksheets. The handbook is updated annually.

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

CalSTRS Member Kits contain targeted retirement information and are sent 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 years of service credit.

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
- Concurrent Retirement
- 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
- Understanding the Formula
- Welcome to CalSTRS
- Working After Retirement

CalSTRS Online
CalSTRS has four websites: CalSTRS.com, myCalSTRS, Pension2.com 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; recent CalSTRS news, investment overview, and self-scheduling for workshops and benefits planning sessions.

myCalSTRS, CalSTRS’ self-service site for members, provides secure and convenient access to members’ personal accounts. After registering for myCalSTRS, members can view their account balances, complete and submit forms online, keep their contact information current, view their Retirement Progress Reports, manage their beneficiary selections, and ask questions and receive prompt answers.

Pension2.com is the website for Pension2, the CalSTRS defined contribution plan that offers 403(b) and 457(b) plans. It also features online enrollment, financial planning tools, webinars and more.

At 403bCompare, members can easily compare investment fees, performance and services of their employer’s 403(b) plans to find the right one for their savings goals. Members can learn about the advantages of a 403(b) account, find their employer’s list of approved vendors, compare up to three 403(b)s at a time, side by side, and get information on how to enroll and start contributions. 403bCompare was created by CalSTRS under state legislation.

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

Benefits Planning Services
CalSTRS has six member service centers: West Sacramento (headquarters), Glendale, Santa Clara, Irvine, Riverside and San Diego, which opened in November 2016.

Member service centers offer educational and benefits planning services, including individual and group benefits planning sessions and financial savings workshops. Existing member service centers serve the greater Sacramento, Los Angeles, Bay Area, Orange County, the Inland Empire and San Diego regions. Offices are open Monday through Friday, 8 a.m. to 5 p.m. and some Saturdays by appointment.
At each center, members have an opportunity to attend educational workshops, meet with CalSTRS benefits specialists by appointment or seek assistance with general information questions on a walk-in basis. Member service center staff also review and receive forms, transmit them to headquarters for processing, and provide CalSTRS forms and publications.

In addition to the member service centers, CalSTRS has one leased office space staffed by CalSTRS staff and seven benefits planning offices located in county offices of education across the state. These offices typically provide workshops, group and individual benefits planning sessions and walk-in assistance, in addition to reviewing and receiving completed forms.

This year, 29,520 members attended group or individual benefits planning sessions or workshops, while 12,064 members took advantage of the opportunity to walk in and receive immediate assistance. An additional 4,029 members received services at outreach events, including job fairs and on-campus presentations.

Another convenient service for members is the estimate-only service, which last year provided 1,625 members with updated retirement benefit estimates without requiring second appointments.

CalSTRS continues to focus on providing services that increase accessibility for members, reflect individual member needs and increase member self-education.

Services to Employers, Member and Client Organizations

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. In addition, CalSTRS is committed to ensuring our employers have all the information and training necessary to provide the most accurate data reporting.

CalSTRS is committed to preventing pension abuse by automating the review of compensation credited to retirement benefits. The CalSTRS Compensation Review Unit has increased reviews of potential abuse cases through the Pension Abuse Reporting Hotline and online reporting 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 Crowe Horwath LLP is the independent auditor. Lists of investment professionals for investment services and other consultants are provided on Schedules VII and VIII in the Financial Section of this report. Table 8 in the Investments Section also lists entities to whom CalSTRS paid global equity broker commissions during the fiscal year.