

CALSTRS[®]

2015

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

CalSTRS Popular Annual Financial Report

Redefining the Future



The Popular Annual Financial Report issued by the California State Teachers' Retirement System details the system's performance for the fiscal year ended June 30, 2015. This fiscal year's investment returns of 4.8 percent gross, as calculated on a time weighted basis, was below our actuarially assumed 7.5 percent (net) rate

and brings focus to risk mitigation efforts within the fund. Slow U.S. and global growth, along with global market volatility, are the primary factors for returns not meeting targets.

An appropriate long-term strategy and vision serve to strengthen our success, and this fiscal year's performance will not adversely affect the long-term financial health of the fund.

Stabilization of the Defined Benefit Program

For the first time in nearly a decade, actuarial projections indicate contributions are sufficient to meet future needs based on the current investment assumption rate of 7.5 percent. Due to the new funding structure enacted in Chapter 47, Statutes of 2014 (Assembly Bill 1469-Bonta), CalSTRS will no longer project a fund depletion date. Instead, the Defined Benefit Program is projected to be fully funded by 2046.

A snapshot of the Defined Benefit Program's assets and liabilities as reported in the June 30, 2014 actuarial valuation, reflects a decrease of about \$1 billion in the unfunded liability, now at \$72.7 billion. Last year's projections marked the funding shortfall at \$73.7 billion. This year's actuarial valuation also shows a 1.6 percent increase in the funded ratio from 66.9 percent to 68.5 percent.

2015 Asset Allocation Study

In February, we initiated our *2015 Asset Allocation Study*, which has taken place every three years since 2003. The study is being conducted over the course of five to six board meetings throughout 2015 and into early 2016 and will conclude with the Teachers' Retirement Board's adoption of a strategic asset allocation policy. CalSTRS takes great care in working with the world's most highly regarded investment professionals in determining a range of different asset classes to consider for its policy allocation, the role and strategic rationale of each asset class, and risk/reward characteristics within the CalSTRS Investment Portfolio.

Much of the study's discussion concerns strategies to mitigate the risk of future market declines, with a focus on the effect of dramatic equity declines like those of the past decade. It is important to keep in mind that as liabilities are being paid down, the fund remains sensitive to asset return volatility and large, negative returns. Lessons learned from the dot-com bust in 2001 and the economic turmoil from the 2008-09 market crash serve to remind us of how heavy losses during significant downturns can negatively affect the fund.

At CalSTRS we are stewards of the hard-earned savings California's educators contribute toward their retirement and have entrusted to us. CalSTRS is a long-term investor and ultimately our goal is to generate returns sufficient to meet the plan's liabilities for the benefit of our members. We diversify our portfolio with holdings throughout the world to maximize our returns and continually seek proven and innovative ways to mitigate risk.

Respectfully submitted,

Chief Executive Officer



Government Finance Officers Association

**Award for
Outstanding
Achievement in
Popular Annual
Financial Reporting**

Presented to

**California State Teachers'
Retirement System**

For its Annual
Financial Report
for the Fiscal Year Ended

June 30, 2014

Executive Director/CEO

TEACHERS' RETIREMENT BOARD (AS OF JUNE 30, 2015)



HARRY KEILEY
Board Chair
K-12 Classroom Teacher
Term: 01/01/12-12/31/15



SHARON HENDRICKS
Board Vice Chair
Community College Instructor
Term: 01/01/12-12/31/15



MICHAEL COHEN
Director of Finance
Ex-Officio Member



JOHN CHIANG
State Treasurer
Ex-Officio Member



DANA DILLON
K-12 Classroom Teacher
Term: 01/01/12-12/31/15



JOY HIGA
Public Representative
Term: 01/27/14-12/31/17



PAUL ROSENSTIEL
Public Representative
Term: 01/01/15-12/31/18



TOM TORLAKSON
State Superintendent of
Public Instruction
Ex-Officio Member



THOMAS UNTERMAN
Public Representative
Term: 07/03/13-12/31/15



BETTY YEE
State Controller
Ex-Officio Member



NORA E. VARGAS
School Board Representative
Term: 04/23/15-12/31/2015

The Teachers' Retirement 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 applications 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; and
- Three members elected by CalSTRS membership.

A new governor-appointed school board representative joined the board in April 2015, and one governor-appointed position remains open as of June 30, 2015.

Your reward—a secure retirement. Our reward—getting you there.



Financial Summary

The Statement of Fiduciary Net Position

The Statement of Fiduciary Net Position presents information on all of CalSTRS' assets and liabilities, with the difference between the two reported as net position.

State Teachers' Retirement Plan

Consolidated Statement of Fiduciary Net Position

(Dollars in Thousands)

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2015	2014	Percent Change
Investments ¹	\$211,960,086	\$214,193,243	(1.0%)
Cash	359,992	287,965	25.0%
Investment Receivables	3,461,566	2,637,163	31.3%
Member, Employer and Other Receivables	545,570	572,831	(4.8%)
Capital and Other Assets	226,167	229,080	(1.3%)
Deferred Outflows of Resources	16,398	—	100%
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$216,569,779	\$217,920,282	(0.6%)
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES			
Benefits in Process of Payment	1,178,524	1,121,034	5.1%
Investment Payables	3,725,966	2,908,250	28.1%
Loan Payable	1,447,405	944,269	53.3%
Net pension and OPEB Obligation	213,427	57,800	269.3%
Other	111,854	103,615	8.0%
Securities Lending Obligation	18,043,187	22,311,298	(19.1%)
Deferred Inflows of Resources	27,080	—	100.0%
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	\$24,747,443	\$27,446,266	(9.8%)
NET POSITION	\$191,822,336	\$190,474,016	0.7%

¹ Includes securities lending collateral of \$18 billion and \$22.3 billion for 2015 and 2014, respectively.

STATE TEACHERS' RETIREMENT PLAN FINANCIAL STATEMENTS

The Statement of Changes in Fiduciary Net Position

The Statement of Changes in Fiduciary Net Position shows how CalSTRS' net position changed during the fiscal year, reflecting contributions earned, benefit payments made, investment returns, and the costs of plan administration.

State Teachers' Retirement Plan

Consolidated Statement of Changes in Fiduciary Net Position

(Dollars in Thousands)

ADDITIONS	2015	2014	Percent Change
Member Contributions	\$2,509,712	\$2,263,613	10.9%
Employer Contributions	2,677,815	2,272,166	17.9%
State of California	1,425,796	1,383,468	3.1%
Net Investment Income	7,611,644	30,401,903	(75.0%)
Other	3,935	2,055	91.5%
TOTAL ADDITIONS	\$14,228,902	\$36,323,205	(60.8%)
DEDUCTIONS			
Benefit Payments	12,476,902	11,927,556	4.6%
Refunds of Contributions	87,694	107,600	(18.5%)
Administrative Expenses	145,239	154,155	(5.8%)
Other	8,840	8,787	0.6%
TOTAL DEDUCTIONS	\$12,718,675	\$12,198,098	4.3%
NET POSITION INCREASE	1,510,227	24,125,107	(93.7%)
BEGINNING NET POSITION - as previously reported	190,474,016	166,348,909	14.5%
Adjustment for Application of GASB 68	(161,907)	—	100.0%
BEGINNING NET POSITION - as adjusted	190,312,109	\$166,348,909	14.4%
ENDING NET POSITION	\$191,822,336	\$190,474,016	0.7%

Total net position for the State Teachers' Retirement Plan (STRP) increased by \$1.3 billion, or 0.7 percent, to \$191.8 billion. Changes in net position are primarily caused by three factors—contributions, investment income and benefit payments. Total contributions for the current fiscal year increased by \$694.0 million (11.7 percent) due to increases in both creditable compensation and contribution rates implemented through AB 1469.

Net investment income for the STRP decreased by \$22.8 billion, or 75.0 percent, to \$7.6 billion due to modest investment returns this year as compared to the robust returns of the prior year.

The increase in contributions and modest investment returns were offset by a 4.6 percent (\$549.3 million) increase in benefit payments.

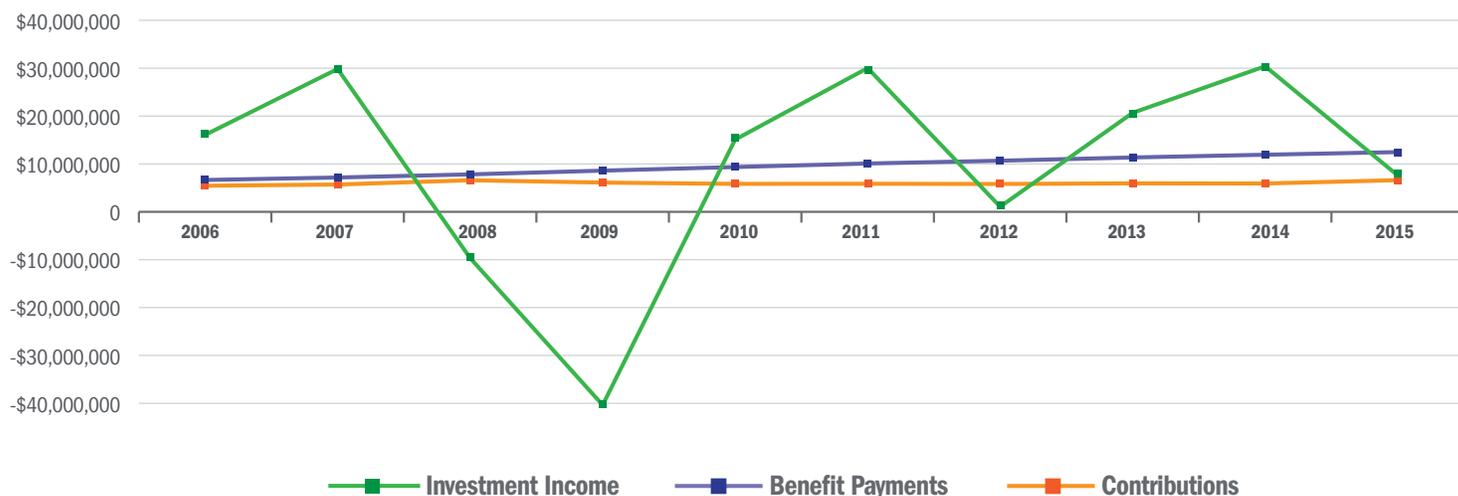
Other Funds and Program

The above financials are for the STRP, which consists of Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program and Replacement Benefit Program. CalSTRS Pension2 Program is shown on Page 7. For the Teachers' Health Benefits Fund and Teachers' Deferred Compensation Fund, please refer to the 2015 Comprehensive Annual Financial Report.

Note: The 2015 Popular Annual Financial Report contains summarized information from the 2015 Comprehensive Annual Financial Report. The CAFR can be viewed online at CalSTRS.com/CAFR.

STRP Investment Income, Contributions and Benefit Payments (Years ended June 30)

(Dollars in Thousands)



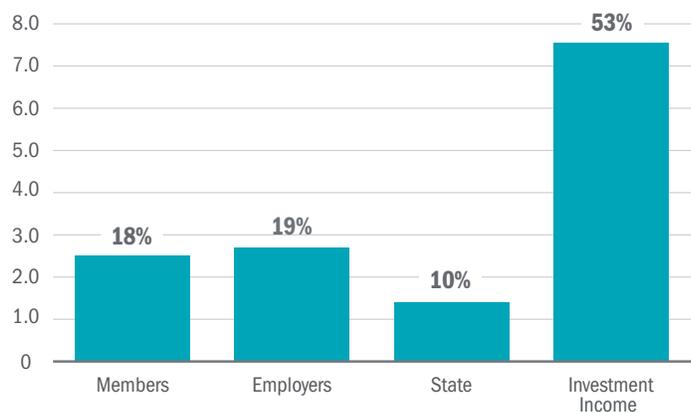
The graph above shows there has been a growing gap between contributions and benefit payments. During fiscal year 2014–15, the gap actually decreased by 2.4 percent as a result of contribution increases included in AB 1469. While benefit payments increased 4.6 percent over last fiscal year, contributions increased 11.7 percent. Contributions will continue to increase due to AB 1469 and the Unfunded Actuarial Accrued Liability is scheduled to shrink to zero by the year 2046.

How Benefits are Funded

Historically, more than 60 percent of retirement benefits have been funded by investment returns. The remainder comes from a combination of member, employer and state contributions. This is consistent with revenue earned during the last fiscal year.

Fiscal Year 2014–15 Additions to Net Position By Source

(In Billions)



PENSION2 FINANCIAL STATEMENTS

Consolidated Statement of Fiduciary Net Position

(Dollars in Thousands)

	403(b) Plan			457 Plan		
	2015	2014	Percent Change	2015	2014	Percent Change
ASSETS						
Investments	575,530	527,534	9.1%	20,761	17,045	21.8%
Member, Employer and Other Receivables	6,883	4,821	42.8%	443	168	163.7%
TOTAL ASSETS	582,413	532,355	9.4%	21,204	17,213	23.2%
LIABILITIES						
Distributions and Withdrawals Payable	994	927	7.2%	200	—	100.0%
TOTAL LIABILITIES	994	927	7.2%	200	—	100.0%
NET POSITION	581,419	531,428	9.4%	21,004	17,213	22.0%

Consolidated Statement of Changes in Fiduciary Net Position

(Dollars in Thousands)

	403(b) Plan			457 Plan		
	2015	2014	Percent Change	2015	2014	Percent Change
ADDITIONS						
Member Contributions	72,042	66,545	8.3%	4,025	3,230	24.6%
Employer Contributions	301	151	99.3%	71	51	39.2%
Net Investment Income	19,363	66,002	(70.7%)	547	1,934	(71.7%)
Other Income	91	28	225.0%	2	—	100.0%
TOTAL ADDITIONS	91,797	132,726	(30.8%)	4,645	5,215	(10.9%)
DEDUCTIONS						
Distributions and Withdrawals	32,648	22,173	47.2%	807	358	125.4%
Refunds of Member Contributions	7,753	2,523	207.3%	—	45	(100.0%)
Administrative Expenses	1,405	1,146	22.6%	47	36	30.6%
TOTAL DEDUCTIONS	41,806	25,842	61.8%	854	439	94.5%
NET POSITION INCREASE	49,991	106,884	(53.2%)	3,791	4,776	(20.6%)
BEGINNING NET POSITION	531,428	424,544	25.2%	17,213	12,437	38.4%
ENDING NET POSITION	581,419	531,428	9.4%	21,004	17,213	22.0%

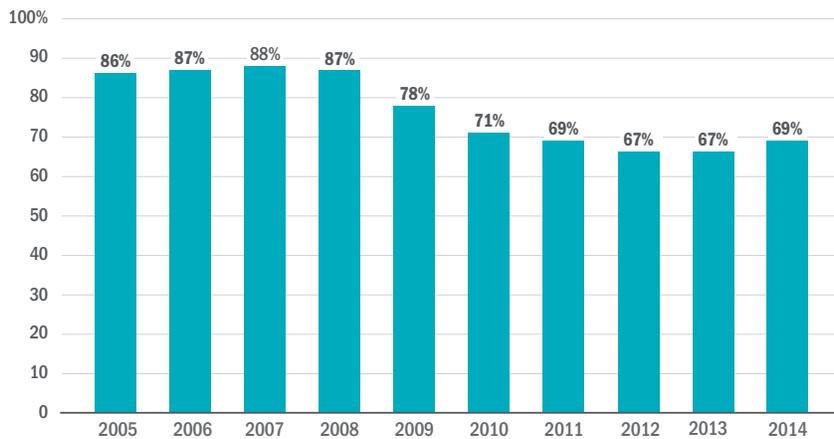
Net position for Pension2 increased by \$53.8 million or 9.8 percent as combined contributions and net investment income of \$96.3 million exceeded distributions and administrative expenses of \$42.7 million. Contributions increased by 9.2 percent from fiscal year 2013-14 due to an increase in plan participants, and net investment income decreased \$48.0 million, or 70.7 percent, as a result of lower investment returns.

FUNDING RATIO

This chart illustrates the difference between the actuarial value of assets and the amount needed to pay benefits to current CalSTRS members from a funding perspective. The ratio of assets to liabilities is determined using an asset-smoothing method that considers short-term fluctuations in asset values. Therefore, the total actuarial value of assets will differ from the market value of investments for any given year.

On June 24, 2014, Governor Brown signed AB 1469 into law, which was enacted as part of the 2014-15 budget. AB 1469 addresses the CalSTRS Defined Benefit Program unfunded liability and incorporates a detailed funding plan, recognizing the need to ensure the viability of the program. The legislation emphasizes the necessity for shared responsibility among the state, school districts and members to eliminate the unfunded liability by 2046.

Defined Benefit Program Funding Ratio



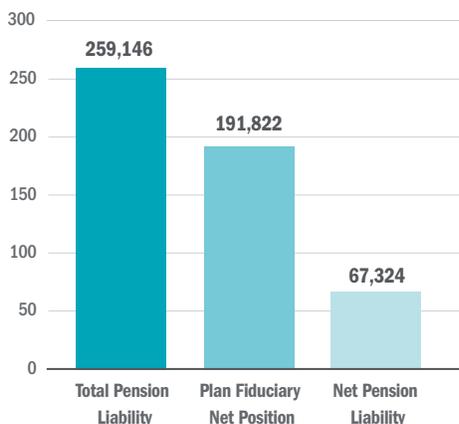
Net Pension Liability

The purpose of the Net Pension Liability is to provide a consistent, standardized methodology that allows comparability of data and increased transparency of the pension liability across plans. The NPL represents the excess of the total pension liability over fiduciary net position. The new NPL is a calculation based on Governmental Accounting Standards Board requirements that reflects benefits earned by plan members through the employment-exchange process.

State Teachers' Retirement Plan

Net Pension Liability of Employers and Nonemployer Contributing Entity

(Dollars in Millions)



MEMBERS

Membership in the CalSTRS Defined Benefit Program includes California public school employees, prekindergarten through community college, who are involved in teaching, mentoring, selecting and preparing instructional materials, provide vocational or guidance counseling, or who supervise people engaged in those activities. Membership is in effect as long as contributions remain on deposit with CalSTRS. Members are employed by more than 1,700 public school districts, community college districts, county offices of education, Regional Occupational Centers and Programs, and select state agencies.

Pension2, the CalSTRS defined contribution plan, is open to all public school employees—certificated and classified.

The following charts show the members' statistics.

Defined Benefit Program

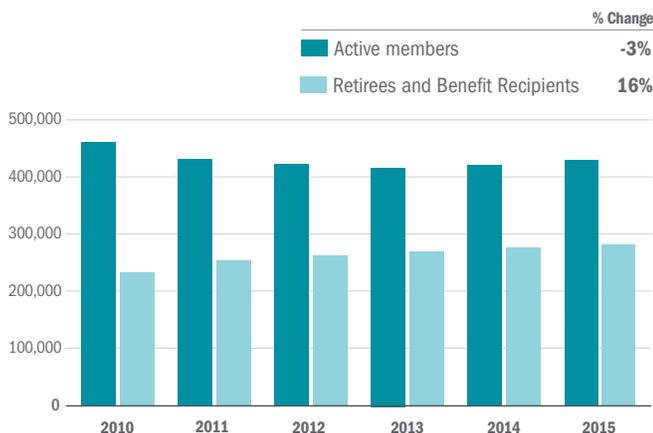
Membership in 2015

Fiscal Year	2015	2014
Active Members	429,460	420,887
Inactive Members	184,396	182,815
Total	613,856	603,702
Service Retirements	247,353	241,920
Disability Benefits	9,848	9,604
Survivors Benefits	24,899	24,103
Total	282,100	275,627
Total Members and Beneficiaries	895,956	879,329

Average Active Member Age and Years of Service

Fiscal Year	2015	2014
Average Age	45.5	45.6
Average Years of Service	12.2	12.3
Average Annual Salary	\$69,597	\$67,276

Change in Number of Active Members Versus Retirees and Beneficiaries

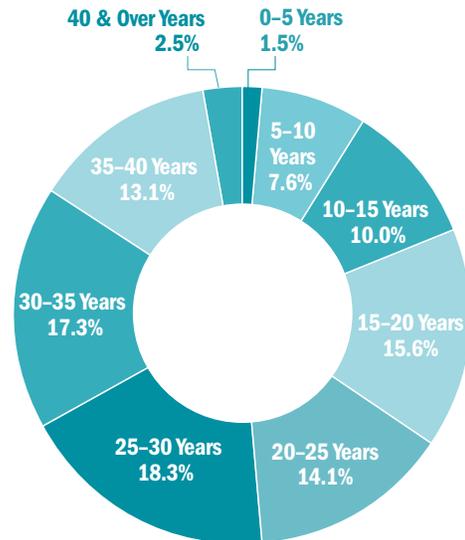


Over the last six years, the number of active members making contributions has declined 3 percent, from about 442,000 to 429,000, while the number of retirees and beneficiaries collecting benefits has increased 16 percent, from about 244,000 to 282,000.

Members Retiring in 2015

Fiscal Year	2015	2014
Number Retiring	11,278	10,736
Average Age	63.0	62.7
Average Years of Service	24.221	23.819
Average Annual Final Comp	\$84,156	\$81,288
Average Annual Member-Only Benefit	\$49,704	\$47,268

Years of Service at Retirement in 2015



Pension2 Program

Pension2 Member Data

Fiscal Year	2015		2014	
	403(b)	457	403(b)	457
Contributing	4,516	336	4,222	292
Non-Contributing	4,332	135	3,976	120
Total	8,848	471	8,198	412

INVESTMENTS

CalSTRS' primary goal is to maintain a financially sound retirement system. CalSTRS' philosophy is long-term patient capital—investing for long-term net cash flows and capital gain potential at a reasonable price. The presentation of investment market value in this section is based on industry practices and provides timely information that is easily compared to benchmarks and peer results. Within the Financial section of the CAFR, the same information is reported in accordance with Generally Accepted Accounting Principles.

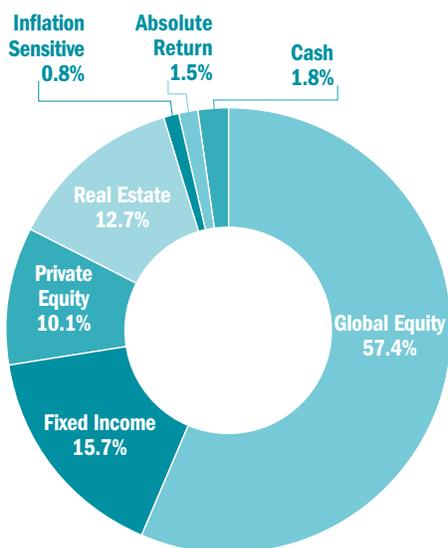
Investment Allocation

The Teachers' Retirement Board adopts long-term strategic allocation targets to be implemented over several years. The following charts provide the distribution of total fund investments based on portfolio allocation and management structures, the assets of programs administered by CalSTRS, and the Teachers' Retirement Fund's market value of investments as of June 30, 2015.

Asset Allocation

Total Investment Portfolio of \$191.4 billion

As of June 30, 2015



Assets of Programs Administered by CalSTRS

As of June 30, 2015

	Market Value	Rate of Return ¹
Defined Benefit Program (in billions)	\$180.05	4.8%
Defined Benefit Supplement Program (in billions)	\$11.09	4.8%
Cash Balance Benefit Program (in millions)	\$273.61	3.0%

¹ One year return calculated on a gross of fees time-weighted return basis.

Market Value of Investments

(Dollars in Millions)



INVESTMENTS (CONTINUED)

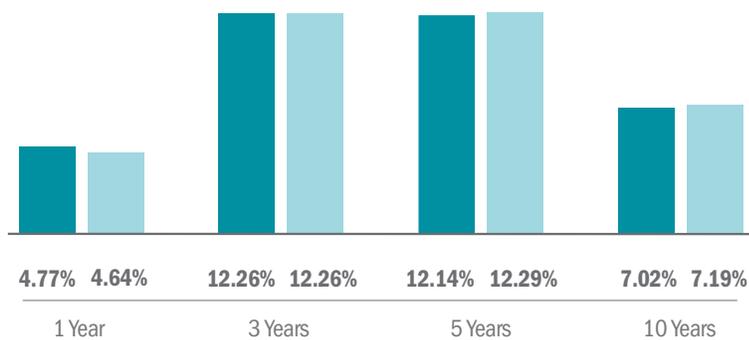
Investment Performance

The CalSTRS Investment Portfolio posted an approximate 4.8 percent one-year return calculated on a gross of fees time-weighted return basis for fiscal year 2014-15. The following charts show the investment return of CalSTRS versus benchmarks as of June 30, 2015.

Portfolio Returns and Benchmarks

As of June 30, 2015

Benchmarks are goals and standards used to measure investment performance.

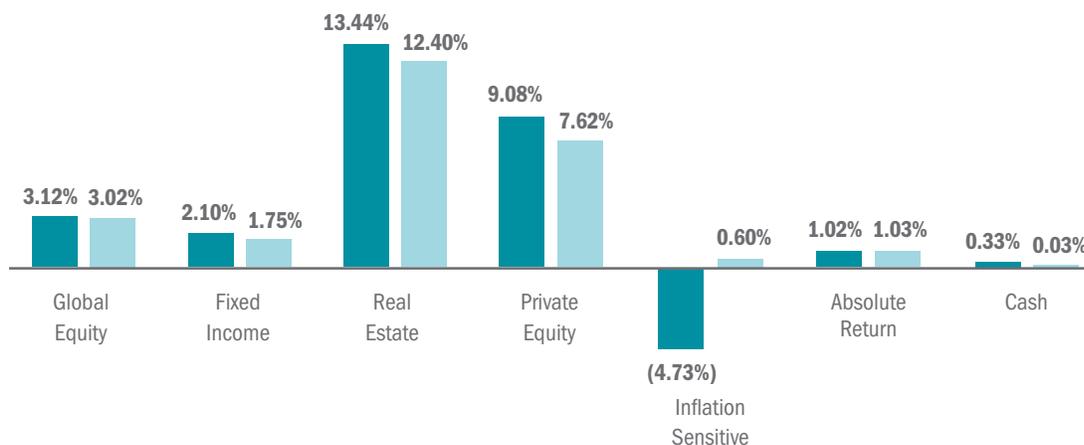


CalSTRS ■ Benchmarks ■

One-Year Returns

As of June 30, 2015

Calculated using a time-weighted rate of return.



■ CalSTRS ■ Benchmarks (the goals and standards used to measure investment performance)

CALSTRS' IMPACT ON CALIFORNIA'S ECONOMY

CalSTRS contributes to California's economy through the benefits it pays to its members, who may then spend that money in the communities in which they live. CalSTRS paid an estimated \$10 billion in benefits to 212,466 retirees living in California during fiscal year 2014-15. The map below shows the number of retired members living in each county and a range of the amount of benefits paid to those members, as well as the locations of CalSTRS Member Service Centers.

Defined Benefit Program

Retirees Who Live in California Characteristics by County



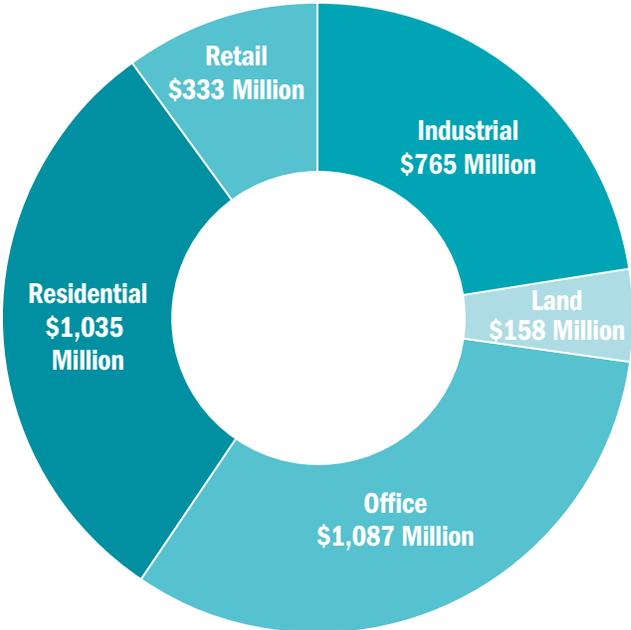
County	Number of Retirees	Estimated Benefits Paid in FY 2014-15 ¹ (Dollars in Thousands)
Alpine	12	\$360
Modoc	85	3,003
Sierra	76	3,181
Colusa	127	5,134
Trinity	153	5,636
Glenn	131	5,716
Inyo	159	5,956
Mono	171	7,097
Del Norte	224	8,722
Lassen	231	9,314
Mariposa	268	10,739
Plumas	331	12,383
Yuba	327	13,249
San Benito	288	14,411
Amador	403	15,875
Lake	479	18,776
Siskiyou	611	22,252
Calaveras	569	23,758
Kings	569	26,119
Tehama	661	26,657
Tuolumne	675	28,099
Imperial	726	38,295
Yolo	993	40,367
Mendocino	1,079	42,070
Humboldt	1,302	46,685
Sutter	1,131	53,064
Madera	1,272	54,163
Napa	1,359	57,948
Nevada	1,483	59,588
Shasta	1,611	64,935
Merced	1,426	69,094
El Dorado	1,942	86,928
Butte	2,190	88,520
Marin	2,163	90,001
Santa Cruz	2,602	111,671
Solano	2,728	119,250
Santa Barbara	2,806	121,896
San Francisco	2,826	123,093
Monterey	2,847	129,253
Tulare	2,936	140,187
Stanislaus	3,016	149,077
Placer	3,470	158,892
San Luis Obispo	3,791	162,193
San Joaquin	3,690	172,508
Sonoma	4,365	184,525
San Mateo	3,739	184,741
Kern	4,017	193,030
Fresno	5,829	263,189
Ventura	6,252	300,896
Contra Costa	7,324	327,986
Alameda	7,392	350,232
Sacramento	8,470	366,262
San Bernardino	8,255	394,056
Santa Clara	9,329	469,837
Riverside	11,398	530,820
San Diego	19,421	908,626
Orange	19,564	1,057,882
Los Angeles	41,172	2,064,236
Total	212,466	\$10,042,429

¹The annualized benefits were estimates based on the June 2015 monthly allowance.

CALSTRS' IMPACT ON CALIFORNIA'S ECONOMY (CONTINUED)

As of June 30, 2015, 26 percent of CalSTRS' U.S. real estate portfolio is invested in California, which is significantly higher than California's share of total U.S. economic activity. These real estate investments are composed of 476 properties that are diversified across many counties and regions of the state.

California Investments by Property Type





CalSTRS Resources



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[403bCompare.com](#)
[Pension2.com](#)



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855-844-2468 (toll free)
Pension Abuse Reporting Hotline



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P.O. Box 15275
Sacramento, CA 95851-0275



VISIT **Member Services**
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West Sacramento, CA 95605
Find your nearest CalSTRS office
at [CalSTRS.com/localoffices](#)



FAX **916-414-5040**

STAY CONNECTED



Legislation

The following retirement-related legislation was passed during fiscal year 2014–15:

Public Divestiture of Thermal Coal Companies Act

SB 185 (De León)

Requires the CalSTRS and CalPERS boards to engage with thermal coal companies, as defined, and to divest the public employee retirement funds of any investments in thermal coal companies. It also prohibits additional or new investments or the renewal of existing investments in thermal coal companies.

Windfall Elimination Provision/Government Pension Offset Resolution

SJR 1 (Beall)

Requests the President and Congress to enact legislation repealing the Government Pension Offset and the Windfall Elimination Provision from the Social Security Act.

Omnibus Bill

SB 1220 (Torres)

Makes various technical, conforming, or minor amendments necessary for continued effective administration of the State Teachers' Retirement Plan. Sponsor: CalSTRS.