The Comprehensive Annual Financial Report issued by the California State Teachers’ Retirement System (CalSTRS) details the system’s performance for the fiscal year beginning July 1, 2017, and ending June 30, 2018.

Year after year, CalSTRS continues to underscore and emphasize the need to look over a long-term, 30-year horizon and well beyond the immediate impacts of any short-term results. We take our responsibility as trusted fiduciaries seriously by taking deliberate actions and making informed, accountable decisions to ensure a fully sustainable organization. It is this unwavering commitment to stewardship that enables us to be here for our members long after they dedicate their careers to educating California’s youth, as we steadfastly deliver on the promise of a secure retirement future.

CalSTRS was established more than a century ago in 1913 as the pension plan for California’s public school educators. The organization began by representing 120 retired members and 15,000 active members. Over the past 105 years, we have grown to represent nearly 950,000 dedicated educators and their beneficiaries by helping them reach their secure retirement future. As of June 30, 2018, CalSTRS employed close to 1,200 staff statewide at our headquarters in West Sacramento, as well as at our Member Service Centers in Northern and Southern California.

As a global institutional investor with $223.8 billion in portfolio assets as of June 30, 2018, 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 retirement planning education for our members, adhering to innovative corporate governance principles, and exercising our role as an active shareowner through engagement with portfolio companies, CalSTRS consistently advocates for the importance of corporate sustainability and long-term value creation.

CalSTRS Commitment to Global Stewardship at Work

CalSTRS demonstrates our commitment to securing our members’ retirement futures and organizational sustainability by modeling best practices in corporate governance, employing risk-mitigation policies, developing workforce succession plans and dedicating resources to increase our members’ financial awareness and retirement security. Across the spectrum of our activities, we consistently advocate for the importance of long-term value creation. In fact, long-term value creation continues to be the essence of our commitment to the cohesive theme of “Global Stewardship at Work,” which is reinforced across the family of CalSTRS annual reports.

As a global, institutional investor, CalSTRS has a fiduciary duty to be principled and effective within our operations to meet financial commitments for the next century and beyond. We believe that establishing a corporate environment with sustainable values is a blueprint for better governance and increased profitability. This Comprehensive Annual Financial Report, covering the 2017–18 fiscal year, illustrates the power of global stewardship and how we continue to manage resources and our fund with great diligence and care, in fulfilling our commitment to being a fully sustainable organization.
Helping Members Build for the Future: The Importance of Retirement Planning

CalSTRS’ relationship with our members begins when they first enter their teaching careers and extends through their retirement years. On average, our members dedicate more than 25 years to educating California’s youth and retire at just under 63 years of age, with an income replacement ratio of approximately 50 to 60 percent of their working salary. And, according to data outlined in our most recent actuarial experience study, our members are living longer in retirement.

Reflecting on the longevity of our members’ careers and their increased lifespans, CalSTRS dedicates resources to emphasize awareness, outreach and education to provide members with retirement planning tools throughout their careers. We offer a financial awareness workshop series that emphasizes the importance of supplemental savings plans in addition to the defined benefit pension. Members are educated on the impactful difference they can make by saving early in their careers when they can benefit most from the power of time and compounding. Additionally, CalSTRS provides members with tools to determine their financial goals throughout their career stages so they are better prepared for the future that lies ahead of them in retirement.

CalSTRS also provides members with a variety of financial education tools, including the robust 403bCompare.com website, the only comprehensive resource in the U.S. providing fee-cost comparisons by product type for 403(b) supplemental savings plans. By providing these financial awareness and retirement planning tools, we aim to empower our members as they embark on a well-thought-out plan and identify steps they can take to meet their future income needs.

Investment Returns and Balancing Risk

Stewardship at CalSTRS includes implementing responsible investing strategies. As a long-term, 30-year horizon investor, we take steps to mindfully balance risk with opportunity in order to preserve the integrity and strength of the fund. Managing a multi-billion dollar portfolio requires thoughtful diligence to monitor investment performance, analyze projections, and take necessary actions to ensure a stable, risk-adjusted return profile. And though CalSTRS is largely a passive equity investor, we take an active shareowner role by regularly engaging with our portfolio companies to ensure responsible corporate governance practices, board diversity, and ultimately, performance accountability to their shareholders.

The overall fund earned a 9.0 percent (net of fees) investment return for the fiscal year ended June 30, 2018, which exceeded the actuarially assumed rate of return of 7.0 percent (net) used for funding purposes. The fiscal year saw strong double digit returns in both the public and private equity markets with the S&P 500 returning over 14 percent. CalSTRS was positioned well to take advantage of market growth while maintaining a diversified portfolio to provide risk protection through the full allocation to the Risk Mitigating Strategies asset class. Given the focus on long-term funding to protect the funds’ value, these strategies are important to avoid losses experienced during market downturns such as the historic 2008 global financial crisis.
Ongoing Progress on Defined Benefit Plan Funding

As trusted fiduciaries, CalSTRS staff and third-party experts continually monitor the financial health of the fund by providing an actuarial valuation and funding levels risk report to the Teachers’ Retirement Board every year.

The funding plan, set in motion in July 2014 via Chapter 47, Statutes of 2014 (Assembly Bill 1469—Bonta), established a predictable schedule of contribution rate increases shared between members, employers and the state over a 32-year span to bring CalSTRS toward full funding by 2046. The funding plan is a model of shared responsibility, and it works together with investment portfolio performance to advance CalSTRS along the path of long-term sustainability.

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 continues to make progress toward reducing the funding shortfall. A snapshot of the Defined Benefit Program’s assets and liabilities as reported in the June 30, 2017, actuarial valuation (released in May 2018) reflected an increase of $10.6 billion in the unfunded liability, currently at $107.3 billion. This increase was anticipated and occurred primarily due to the adoption of a lower investment return assumption and the increase in member life expectancies. These changes also caused a decrease in the system’s funding ratio—the ratio of the smoothed actuarial value of assets to pension obligations—from 63.7 percent to 62.6 percent. Actuarial experts and consultants expect an upward trajectory during the coming years as progress is made on the gradual path to reach full funding by the year 2046.

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

Transforming Sustainability Through Engagement

As an active shareowner, CalSTRS continues to focus on expanding our direct engagement efforts with stakeholders and business partners in order to effect positive change within our portfolio companies. Moreover, CalSTRS regularly engages our non-investment related business partners in surveys to assess levels of sustainable commitment within their organizations. The results continue to be impressively positive, indicating that the shift to embrace sustainable business practices is more than just a trend.

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, active shareowner, 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.
Creating Long-Term Value

As with any mature financial services organization, CalSTRS maintains our focus on sustainability for the future by balancing the challenges of managing assets and liabilities, investment gains and losses, and operational growth—all in an effort to ultimately create long-term value. And just as it is mission-critical for CalSTRS to provide a defined benefit retirement for vested members who dedicated their careers to educating California’s youth, we also proactively take steps to provide members with financial tools and resources so they understand the importance of early retirement planning to meet their own personal financial needs well into the future.

For a complete understanding of CalSTRS’ performance and sustainability milestones, this Comprehensive Annual Financial Report (CAFR) should be reviewed in conjunction with our annual sustainability report based on Global Reporting Initiative standards. This report can be found online at CalSTRS.com/sustainability-reports.

Member Profile

Established 105 years ago, CalSTRS, with $223.8 billion in portfolio assets as of June 30, 2018, is the largest educator-only pension fund in the world. We administer 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 and provides the Teachers’ Retirement Board with limited authority to adjust the employer and state rates. CalSTRS members include employees of approximately 1,740 school districts, community college districts, county offices of education and regional occupational programs during the fiscal year. 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 just under 55 percent of final salary for the members who retired last year. Financial advisors recommend income replacement rates as high as 80 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 who are eligible for Social Security from other work or their spouse 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, benefits planning 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 our 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, 2018. 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 Investment 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 our resources in a cost-efficient manner to ensure benefits continue to flow to CalSTRS participants. Over the last year, the CalSTRS portfolio generated a 9.0 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 or five 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 (GFOA) of the U.S. and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to CalSTRS for our CAFR for the year ended June 30, 2017. This is the 23rd 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.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program’s requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

PPCC Standards Award Program
The Public Pension Coordinating Council (PPCC) presented CalSTRS with its Public Pension Standards Award for Funding and Administration for the fiscal year ended June 30, 2018, 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. A Public Pension Standards Award is valid for a period of one year.

Acknowledgements
The 2018 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 the ideas of the future are influenced by the day-to-day interactions that 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, 2017

Christopher P. Mervill
Executive Director/CEO
Public Pension Coordinating Council

Public Pension Standards Award
For Funding and Administration
2018

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)

Signed
Alan H. Winkle
Program Administrator
TEACHERS’ RETIREMENT BOARD*

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

KEELY BOSLER
Director of Finance
Ex-Officio Member

JOY HIGA
Public Representative
Term: January 19, 2018 – December 31, 2021

HARRY M. 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

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

KAREN YAMAMOTO
Retiree Representative
Term: April 17, 2017 – December 31, 2019

BETTY YEE
State Controller
Ex-Officio Member

VACANT
Public Representative

* Board members are listed as of the date this report is issued.
EXECUTIVE STAFF*

Executive

JACK EHNES
Chief Executive Officer

Investments

CHRISTOPHER AILMAN
Chief Investment Officer

CASSANDRA LICHNOCK
Chief Operating Officer

Financial Services

JULIE UNDERWOOD
Chief Financial Officer

General Counsel

BRIAN J. BARTOW
General Counsel

Technology Services

ASHISH JAIN
Chief Technology Officer

Public Affairs

GRANT BOYKEN
Public Affairs
Executive Officer

Administrative Services

LISA BLATNICK
Chief of Administrative Services

Benefits and Services

ANDREW ROTH
Benefits and Services
Executive Officer

* Executive staff are listed as of the date this report is issued.
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.

*Due to the timing of when membership numbers were pulled, there will be a difference between the numbers reported in this section and the Financial Section.
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.

12,778 Members who retired in fiscal year 2017–18
4.3 percent Increase from fiscal year 2016–17

Disability Benefits
93 percent Applications processed within 150 days
734 Applications received in 2017–18
434 Applications approved in 2017–18
10.0 percent Increase in number of disability applications received from fiscal year 2016–17

Survivor Benefits
96 percent Payments processed within 30 days of receiving all necessary information
9,553 Notifications of death received in 2017–18
5.9 percent Increase in number of notifications from fiscal year 2016–17

Communicating With Our Members and Beneficiaries

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

293,415 Member inquiries answered
71 percent Member calls answered within 30 seconds
87 seconds Average wait time to talk with a Contact Center agent
73 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.

76 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 eligibility requirements and worksheets. The handbook is updated annually.

Your Retirement Guide 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
- Community Property Guide
- Concurrent Retirement
- Introduction to Disability Benefits
- Join CalSTRS? Join CalPERS?
- myCalSTRS
- Pension2 ebook
- Purchase Additional Service Credit
- Refund: Consider the Consequences
- Social Security, CalSTRS and You
- Tax Considerations for Rollovers
- Understanding the Formula
- Uniformed Services Employment and Reemployment Rights Act
- Your Disability Benefits Guide
- Welcome to CalSTRS
- Working After Retirement

CalSTRS Online
CalSTRS has four websites for members: CalSTRS.com, myCalSTRS, Pension2.com and 403bCompare.com.

CalSTRS.com is the main site for information about membership and benefits, investments, board meetings, our newsroom and business partner opportunities, and also includes links to information for employers, including the Secure Employer Website. 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 including, an investment overview; and self-scheduling for workshops and benefits planning sessions.

myCalSTRS, our secure self-service site for members, provides 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 exchange secure messages with CalSTRS representatives.

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

At 403bCompare.com members can easily compare investment fees, performance and services of their employer’s 403(b) plans to find the best 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 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 social media on Facebook, Twitter, 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.

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, 29,805 members attended group or individual benefits planning sessions or workshops, while 13,464 members took advantage of the opportunity to walk in and receive immediate assistance. An additional 5,039 members received services at outreach events, including job fairs and on-campus presentations.

Since the launch of our Business Plan for fiscal year 2017–18, we have increased our efforts in regards to member-employer engagement. This has led to more outreach working directly with stakeholders which includes school districts, various unions and other teacher organizations. Through this outreach, we have more than doubled the teachers we have met with through outreach activities.

Another convenient service for members is the estimate-only service, which during fiscal year 2017–18, provided 1,833 members with updated retirement benefit estimates. 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 timely and accurate. 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 LLP is the independent auditor. Lists of investment professionals for investment services and other consultants are provided on Schedules VIII and IX respectively in the Financial Section of this report. Table 9 in the Investments Section also lists entities to whom CalSTRS paid broker commissions during the fiscal year.