

# Popular Annual Financial Report

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

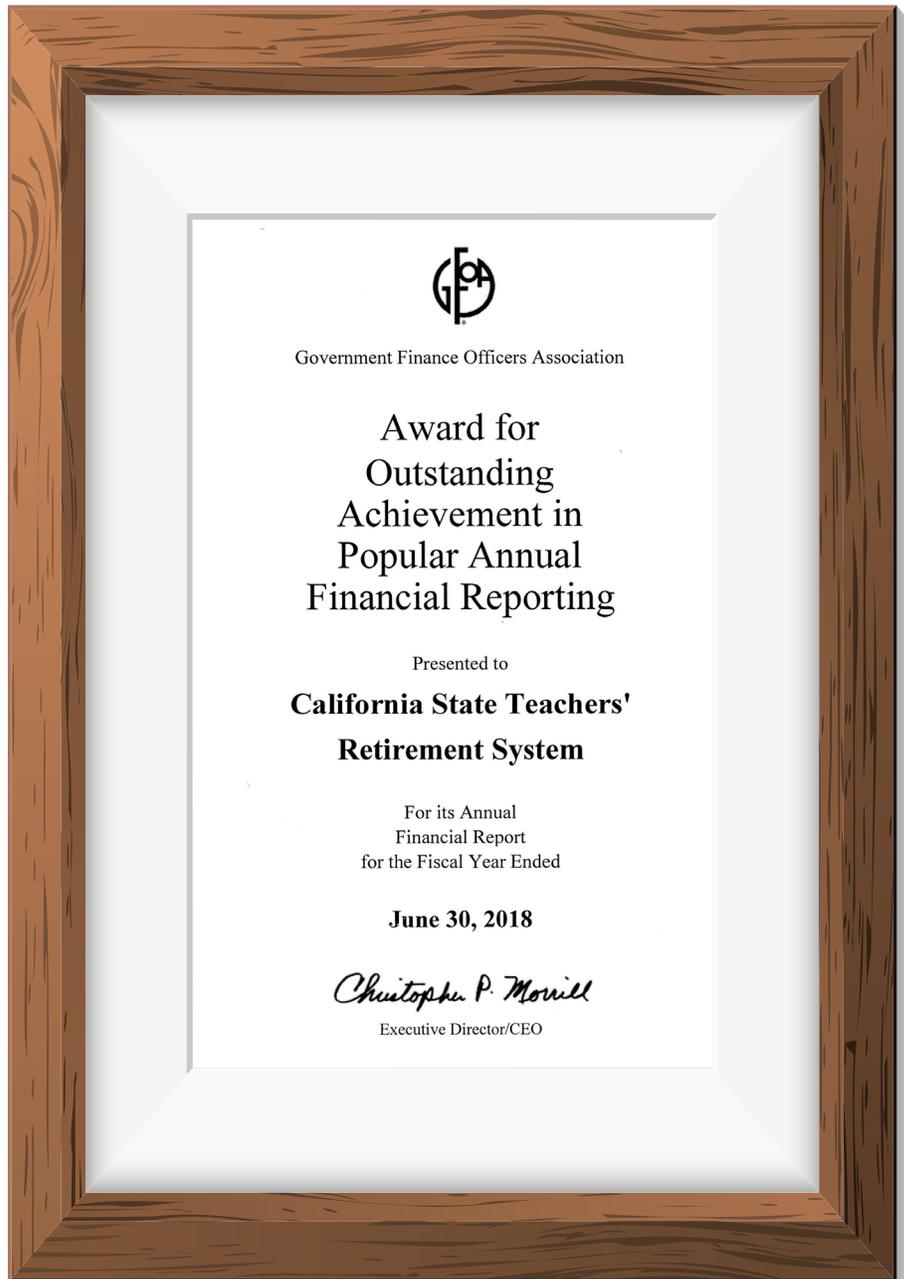
A COMPONENT UNIT OF THE STATE OF CALIFORNIA  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

GLOBAL  
STEWARDSHIP  
AT WORK

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## AWARD: GFOA CERTIFICATE



# Advancing Sustainability Forward



CalSTRS was established 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 106 years, we have grown to represent over 960,000 dedicated educators and their beneficiaries.

As a global investor with over 1,200 staff and portfolio assets of \$236.9

billion as of June 30, 2019, CalSTRS models best practices in sustainable investment, employing risk-mitigating policies and dedicating resources to increase our members' financial awareness and retirement security. Long-term value creation continues to be the essence of our commitment to the "Global Stewardship and Work" theme expressed in our annual reports.

The CalSTRS *Popular Annual Financial Report* details the system's performance for the 2018–19 fiscal year. Complete financial information and a statistical overview can be found in the 2018–19 CalSTRS *Comprehensive Annual Financial Report*.

## Sustainable Investment and Stewardship

CalSTRS is an active shareowner, although largely an indexed investor, who regularly engages with our portfolio companies to ensure responsible corporate governance and compensation practices, board diversity, and ultimately, performance accountability to their shareholders.

CalSTRS continues to expand our engagement efforts to effect positive change within our portfolio companies. We see engagement as part of our responsibility to California's educators, our members; and we are actively influencing the market to ensure companies are sustainable and provide long-term risk adjusted returns to strengthen the fund.

## CalSTRS Collaborative Model

In 2018–19, one of CalSTRS' main initiatives was the continued implementation of the CalSTRS Collaborative Model—an internally led approach to engaging the investment marketplace. The mission of the Collaborative Model is to leverage CalSTRS' strengths to bring more externally managed assets in-house as well as reduce costs and risks by investing directly. Implementation efforts are ongoing.

## Information Security

CalSTRS focuses substantial attention on information security and is vigilant in detecting threats, proactively mitigating identified risks and adapting to the rapidly evolving nature of the cybersecurity landscape. CalSTRS has several key initiatives underway related

to ensuring our policies and technology continue to secure the confidentiality and integrity of data and member information.

## Pension Solution Project

CalSTRS is continuing efforts to implement a contemporary pension administration system that will increase our ability to respond to customer and business needs; enhance services to members and their beneficiaries, staff and employers; gain long-term operational efficiencies; and improve internal controls.

## Progress on Defined Benefit Plan Funding

The CalSTRS 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 of California to bring CalSTRS toward full funding by 2046.

A snapshot of the Defined Benefit Program's assets and liabilities as reported in the June 30, 2018, actuarial valuation (released in May 2019) reflected an improving funding picture due to stronger than expected investment returns. The unfunded actuarial obligation inched down from \$107.3 billion at the June 30, 2017, valuation to \$107.2 billion as of the June 30, 2018, valuation. We expect an upward trajectory in the funding ratio during the coming years as progress is made on the gradual path to reach full funding by the year 2046.

## Helping Members Build for the Future

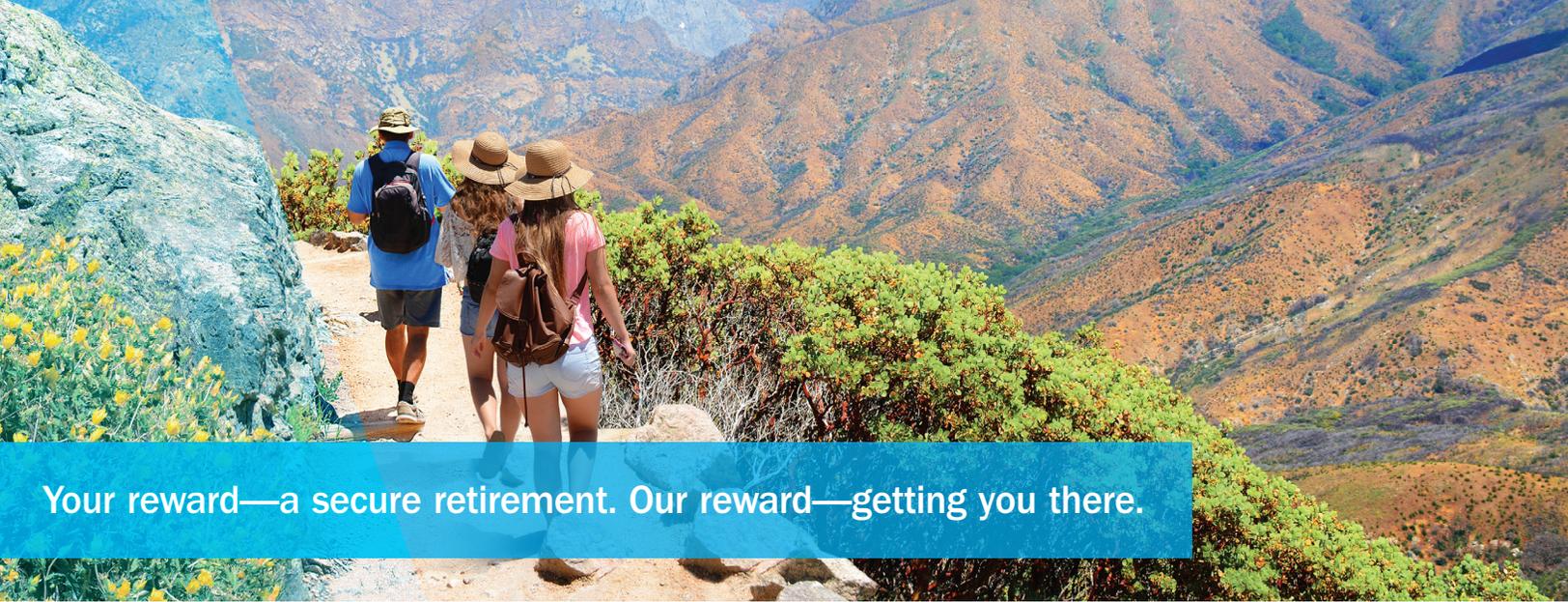
CalSTRS dedicates resources to provide our members with retirement tools throughout their careers. As the lifespan of our members continues to grow, we emphasize the importance of supplemental savings plans and offer financial awareness and retirement planning workshops. Through our member service centers, websites, publications and outreach, we strive to be our members' trusted guide to retirement.

As with any mature financial services organization, CalSTRS maintains our focus on future sustainability 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. For a complete understanding of our performance and sustainability milestones, review this PAFR in conjunction with our annual Global Reporting Initiative-based *Sustainability Report* found at [CalSTRS.com/sustainability-reports](http://CalSTRS.com/sustainability-reports).

Respectfully submitted,

  
Chief Executive Officer  
CalSTRS

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



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

## STATE TEACHERS' RETIREMENT PLAN FINANCIAL SUMMARY

The following tables are for the State Teachers' Retirement Plan (STRP), which consists of the Defined Benefit (DB) Program, Defined Benefit Supplement (DBS) Program, Cash Balance Benefit (CBB) Program and Replacement Benefits (RB) Program.

### Statement of Fiduciary Net Position

The Statement of Fiduciary Net Position presents information on assets and liabilities, with the difference between the two reported as net position. The tables that follow present comparative information and changes to the plan net position for the STRP for fiscal years 2018-19 and 2017-18.

### Fiduciary Net Position

(Dollars in Thousands)

<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>2019</b>	<b>2018</b>	<b>Percent Change</b>
Investment Assets <sup>1</sup>	\$261,270,852	\$247,370,532	5.6%
Cash	321,051	153,256	109.5%
Investment Receivables	4,763,939	3,076,620	54.8%
Member, Employer, State and Other Receivables	5,830,354	3,468,656	68.1%
Capital and Other Assets	317,418	276,245	14.9%
Deferred Outflows of Resources	68,561	117,457	(41.6%)
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$272,572,175</b>	<b>\$254,462,766</b>	<b>7.1%</b>
<b>LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>			
Investment Liabilities	\$123,852	\$140,070	(11.6%)
Investments Purchased Payable	5,194,433	3,346,989	55.2%
Loans Payable	2,787,387	2,731,737	2.0%
Benefits in Process of Payment	1,513,766	263,254	475.0%
Net Pension and OPEB Liabilities	816,327	835,204	(2.3%)
Securities Lending Obligation	22,786,907	21,917,706	4.0%
Other	369,832	303,893	21.7%
Deferred Inflows of Resources	117,783	55,278	113.1%
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	<b>\$33,710,287</b>	<b>\$29,594,131</b>	<b>13.9%</b>
<b>NET POSITION RESTRICTED FOR PENSIONS</b>	<b>\$238,861,888</b>	<b>\$224,868,635</b>	<b>6.2%</b>

<sup>1</sup>Includes securities lending collateral of \$22.8 billion and \$21.9 billion as of June 30, 2019, and June 30, 2018, respectively.

# STATE TEACHERS' RETIREMENT PLAN FINANCIAL SUMMARY (CONTINUED)

## Statement of Changes in Fiduciary Net Position

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

### Changes in Fiduciary Net Position

(Dollars in Thousands)

<b>ADDITIONS</b>	<b>2019</b>	<b>2018</b>	<b>Percent Change</b>
Member Contributions	\$3,647,999	\$3,496,245	4.3%
Employer Contributions	5,644,472	4,866,661	16.0%
State of California Contributions	5,334,860	2,796,673	90.8%
Net Investment Income	14,897,833	18,673,537	(20.2%)
Other Income	127,603	105,144	21.4%
<b>TOTAL ADDITIONS</b>	<b>\$29,652,767</b>	<b>\$29,938,260</b>	<b>(1.0%)</b>
<b>DEDUCTIONS</b>			
Benefit Payments	\$15,196,087	\$14,432,810	5.3%
Refunds of Member Contributions	99,893	103,886	(3.8%)
Administrative Expenses	253,953	216,083	17.5%
Borrowing Costs	105,306	94,249	11.7%
Other Expenses	4,275	1,678	154.8%
<b>TOTAL DEDUCTIONS</b>	<b>\$15,659,514</b>	<b>\$14,848,706</b>	<b>5.5%</b>
<b>INCREASE IN NET POSITION</b>	<b>\$13,993,253</b>	<b>\$15,089,554</b>	<b>(7.3%)</b>
<b>Net Position Restricted for Pensions</b>			
Beginning of the Year-As Previously Reported	\$224,868,635	\$210,289,900	6.9%
Less: Adjustment for Application of GASB 75	—	510,819	(100.0%)
Beginning of the Year-As Adjusted	224,868,635	209,779,081	7.2%
<b>END OF THE YEAR</b>	<b>\$238,861,888</b>	<b>\$224,868,635</b>	<b>6.2%</b>

Total net position for the STRP increased by approximately \$14.0 billion or 6.2% to \$238.9 billion. Changes in net position are primarily caused by three factors—contributions, investment income and benefit payments. The most significant reasons for the current change were positive net investment income, increases in employer and state contribution rates in accordance with the CalSTRS Funding Plan and supplemental contributions received from the state's General Fund pursuant to SB 90.

### Other Funds and Programs

The above financials are for the STRP, while the CalSTRS Pension2® Program is shown on page 7. For the Medicare Premium Payment Program and the Teachers' Deferred Compensation Fund, please refer to the *2018-19 CalSTRS Comprehensive Annual Financial Report* (CAFR).

### Basis of Presentation

Although this report is largely based on CalSTRS' 2019 CAFR, this report is not prepared in accordance with generally accepted accounting principles (GAAP). Only the financial data of certain plans (defined benefit plan and defined contribution plans) are included in this report. Additionally, information is presented in a summarized manner and certain financial statements and note disclosures required by GAAP are omitted. A copy of this report as well as our 2019 CAFR can be viewed online at CalSTRS.com.

## How Benefits Are Funded

Historically, approximately 61% of retirement benefits have been funded by investment returns with the remainder coming from a combination of member, employer and state contributions.

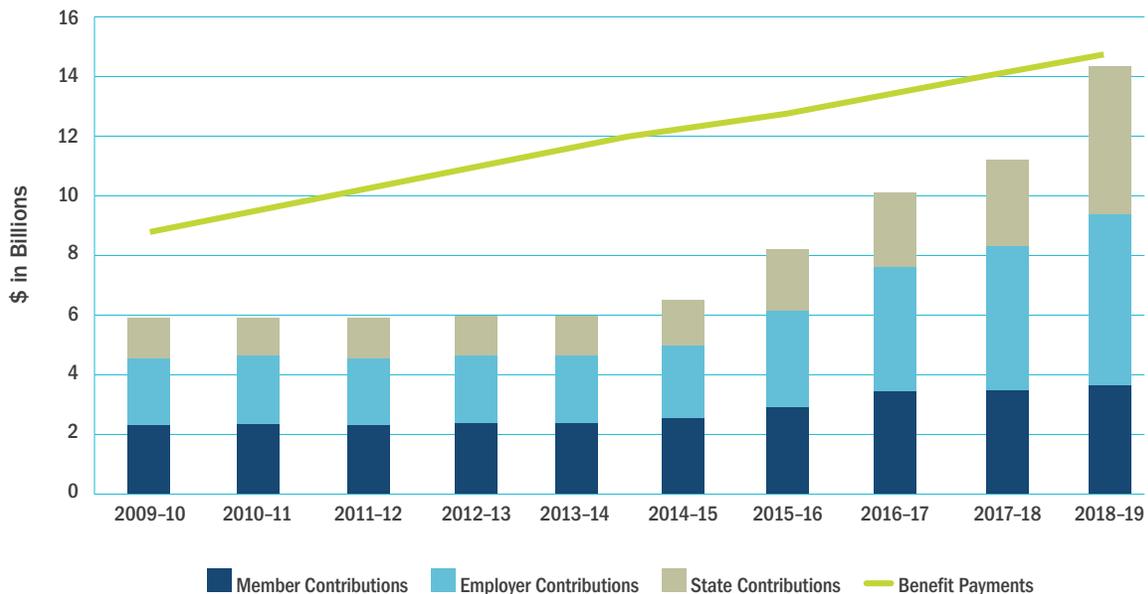
**Funding for Benefit Payments by Source**



The chart below shows that prior to the enactment of AB 1469 in June 2014, there had been a growing gap between contributions and benefit payments. During fiscal year 2018-19, the gap narrowed significantly primarily due to the one-time, supplemental state contributions resulting from SB 90. Contribution rates will continue to increase according to AB 1469, which has improved the long-term sustainability of the DB Program as it continues making progress toward full funding by the year 2046. The experience beyond 2046 may differ.

**STRP Contributions and Benefit Payments**

(Years ended June 30)



# PENSION2 FINANCIAL STATEMENTS

In addition to the STRP, CalSTRS administers two voluntary defined contribution plans within the CalSTRS Pension2 Program. Pension2 offers the opportunity to invest through tax-advantaged payroll deductions in low cost, flexible 403(b), Roth 403(b), 457(b) and Roth 457(b) plans for additional retirement savings. The tables below present comparative information and changes to Pension2 net position for fiscal years 2018-19 and 2017-18.

## Fiduciary Net Position

(Dollars in Thousands)

<b>ASSETS</b>	<b>2019</b>	<b>2018</b>	<b>Percent Change</b>
Investment Assets	\$1,125,203	\$964,164	16.7%
Member, Employer and Other Receivables	18,950	16,984	11.6%
<b>TOTAL ASSETS</b>	<b>\$1,144,153</b>	<b>\$981,148</b>	<b>16.6%</b>
<b>LIABILITIES</b>			
Other	\$4,259	\$1,878	126.8%
<b>TOTAL LIABILITIES</b>	<b>\$4,259</b>	<b>\$1,878</b>	<b>126.8%</b>
<b>NET POSITION RESTRICTED FOR PENSIONS</b>	<b>\$1,139,894</b>	<b>\$979,270</b>	<b>16.4%</b>

## Changes in Fiduciary Net Position

(Dollars in Thousands)

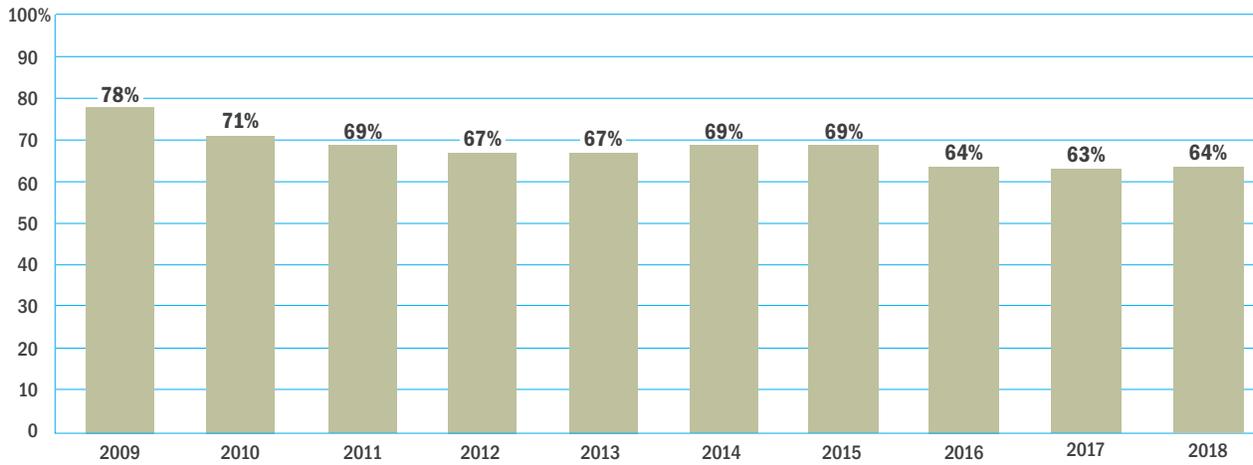
<b>ADDITIONS</b>	<b>2019</b>	<b>2018</b>	<b>Percent Change</b>
Member Contributions	\$183,537	\$129,151	42.1%
Employer Contributions	1,092	454	140.5%
Net Investment Income	53,899	67,659	(20.3%)
Other Income	283	320	(11.6%)
<b>TOTAL ADDITIONS</b>	<b>\$238,811</b>	<b>\$197,584</b>	<b>20.9%</b>
<b>DEDUCTIONS</b>			
Distributions and Withdrawals	\$69,431	\$49,892	39.2%
Refunds of Member Contributions	5,895	5,702	3.4%
Administrative Expenses	2,861	2,506	14.2%
<b>TOTAL DEDUCTIONS</b>	<b>\$78,187</b>	<b>\$58,100</b>	<b>34.6%</b>
<b>INCREASE IN NET POSITION</b>	<b>\$160,624</b>	<b>\$139,484</b>	<b>15.2%</b>
Beginning of the Year	979,270	839,786	16.6%
<b>END OF THE YEAR</b>	<b>\$1,139,894</b>	<b>\$979,270</b>	<b>16.4%</b>

Net position for Pension2 increased by \$160.6 million or 16.4% as total additions of \$238.8 million exceeded total deductions of \$78.2 million. Investment assets increased 16.7% or \$161.0 million primarily due to participant contributions made in fiscal year 2018-19 combined with net positive returns on investments held by plan participants. Although these investments experienced positive returns, net investment income decreased 20.3% or \$13.8 million due to a greater return on investments held by plan participants in fiscal year 2017-18.

# FUNDING RATIO

The June 30, 2018, funding valuation (released in May 2019) showed a decrease of \$0.1 billion in the unfunded actuarial obligation of the DB Program to a total of \$107.2 billion and an increase in the funding ratio from 62.6% to 64.0%. This increase primarily attributable to positive investment returns and increased contributions. A gradual increase in the funding ratio is projected under the CalSTRS Funding Plan as contributions increase, with a steady progress towards full funding by 2046.

## Defined Benefit Program Funding Ratio



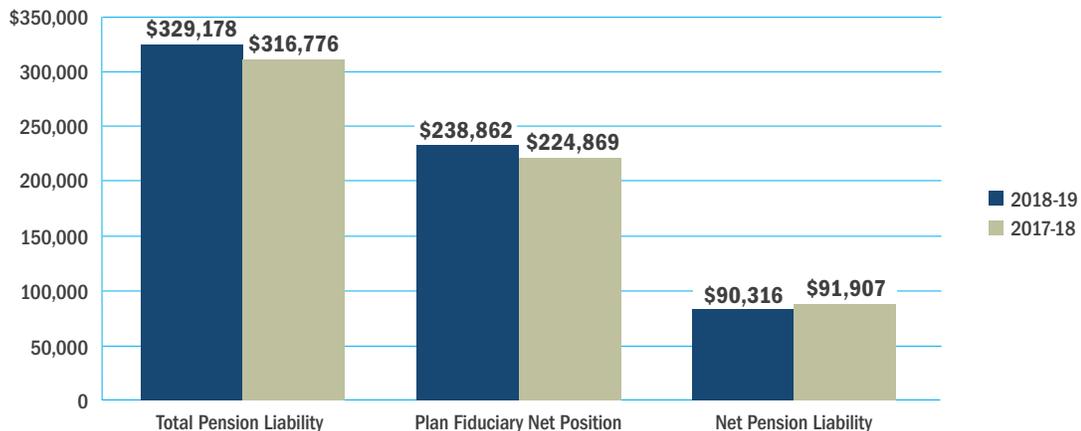
## Net Pension Liability

The net pension liability (NPL) for the State Teachers' Retirement Plan (DB, DBS, CBB and RB programs) represents the excess of the total pension liability over fiduciary net position. The NPL is a calculation based on Governmental Accounting Standards Board requirements and reflects total accrued benefits earned by plan members through the employment-exchange process less the value of plan assets available to fund the liability.

### State Teachers' Retirement Plan

### Net Pension Liability of Employers and Nonemployer Contributing Entity

(Dollars in Millions)



The NPL decreased by 1.7% primarily due to an increase in the STRP fiduciary net position of 6.2% as a result of increased employer and state contributions and positive net investment income.

## Defined Benefit Program

Membership in the CalSTRS DB Program includes California public school employees (prekindergarten through community college), who are involved in teaching, mentoring, selecting and preparing instructional materials, providing vocational or guidance counseling, or supervising people engaged in those activities. Membership is in effect as long as contributions remain on deposit with CalSTRS. Members are employed by 1,778 public school districts, community college districts, county offices of education, charter schools, and regional occupational centers and programs. Pension2, the CalSTRS defined contribution plan, is open to all public school employees—certificated and classified.

### Membership in 2019\*

Fiscal Year	2019	2018
Active Members	451,429	449,595
Inactive Members	204,593	198,058
<b>Total Active and Inactive Members</b>	<b>656,022</b>	<b>647,653</b>
Service Retirement Benefits	270,835	264,780
Disability Benefits	10,152	10,089
Survivors Benefits	27,652	26,990
<b>Total Retirees and Beneficiaries</b>	<b>308,639</b>	<b>301,859</b>
<b>Total Members, Retirees and Beneficiaries</b>	<b>964,661</b>	<b>949,512</b>

\* Due to the timing of when membership numbers were pulled, there will be a difference between the numbers reported here and the Financial section of the CAFR.

Active Members: **451,429**



Number of Employers as of June 30, 2019:  
**1,778**



Inactive Members: **204,593**



Total: **656,022**



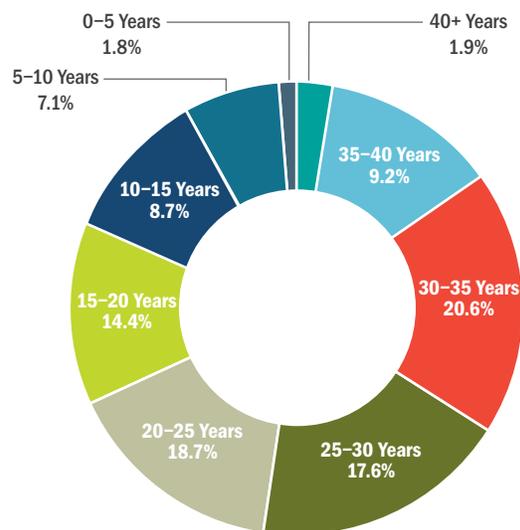
### Average Active Member Age and Years of Service

Fiscal Year	2019	2018
Average Age	45.2	45.2
Average Years of Service	12.2	12.1
Average Annual Salary	\$77,736	\$75,604

### Members Retiring in 2019

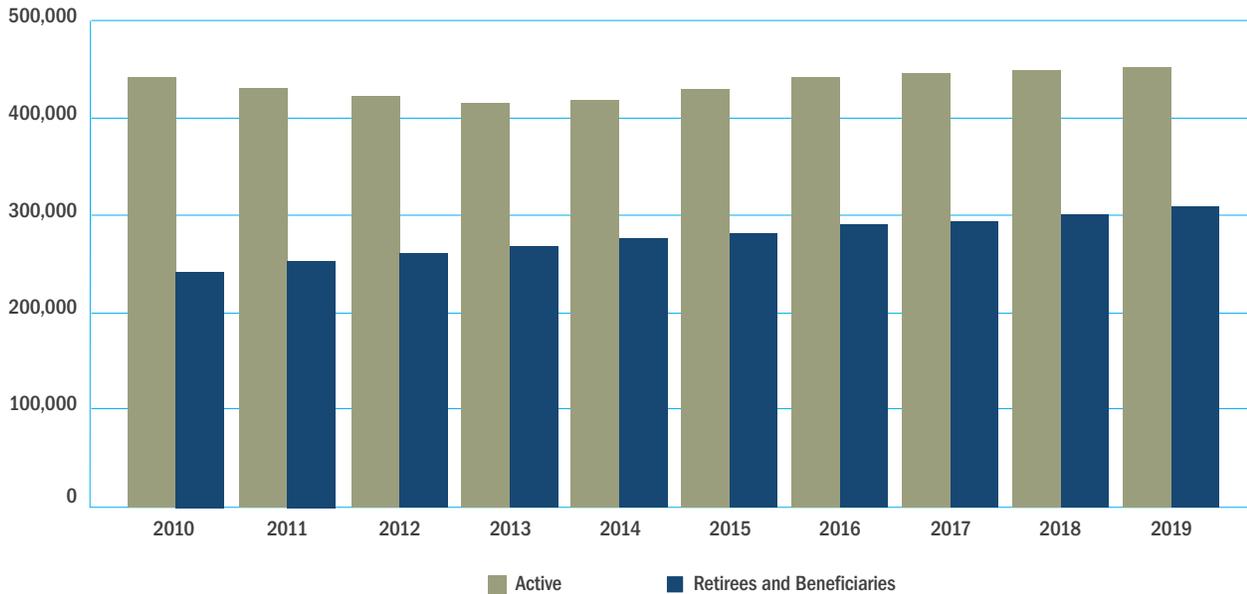
Fiscal Year	2019	2018
Number Retiring	12,331	12,778
Average Age	63.3	63.3
Average Years of Service	24.083	24.264
Average Annual Final Compensation	\$94,560	\$92,748
Average Annual Member-Only Benefit	\$54,564	\$54,144

### Years of Service at Retirement in 2019



## Defined Benefit Program

### Change in Number of Active Members Versus Retirees and Beneficiaries



### Percent Change in 10 Years

**+2%** Active  
**+27%** Retirees & Beneficiaries

Over the last 10 years, the number of active members making contributions has increased 2%, from about 442,000 to 451,000, and the number of retirees and beneficiaries collecting benefits has increased 27%, from about 244,000 to 309,000.

## Pension2 Program

### Number of Pension2 Members

Fiscal Year	2019		2018	
	403(b)	457(b)	403(b)	457(b)
Contributing	10,774	736	8,937	646
Non-Contributing	6,431	290	5,515	208
<b>Total</b>	<b>17,205</b>	<b>1,026</b>	<b>14,452</b>	<b>854</b>

# 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 values and related returns in this section are based on investment 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 GAAP. For more current investment information, as well as videos detailing key aspects of the investment portfolio, see CalSTRS.com.

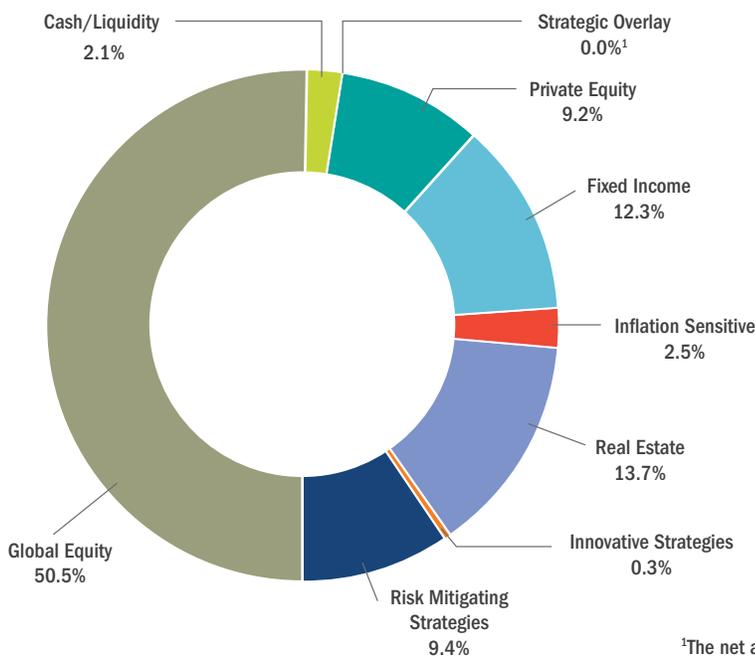
## Investment Allocation

The board adopts long-term strategic allocation targets to be implemented over several years. The following charts provide the distribution of the STRP investments based on portfolio allocation and market value of investments.

### Asset Allocation

#### Total Investment Portfolio of \$236.9 billion

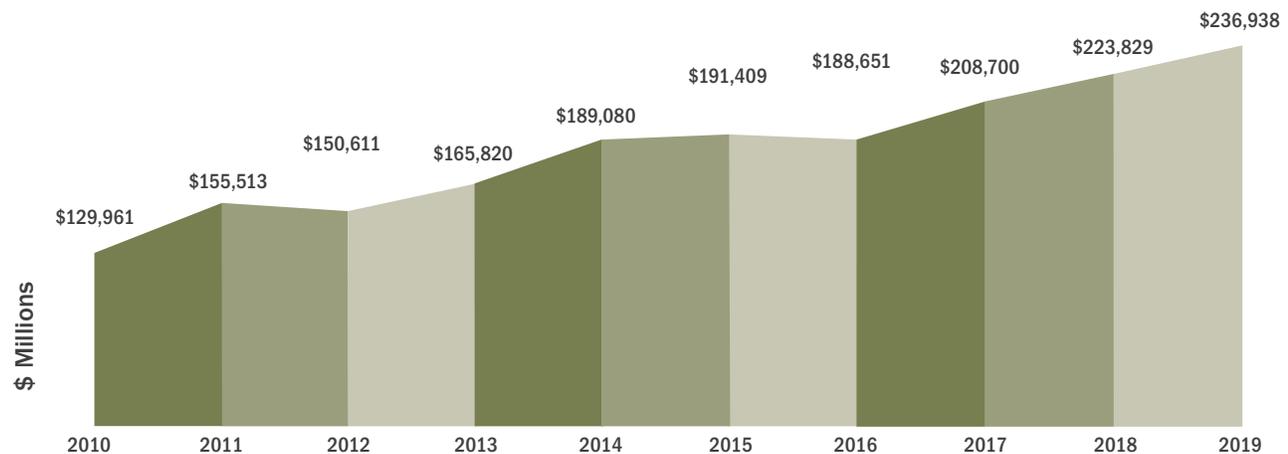
As of June 30, 2019



<sup>1</sup>The net asset value for Strategic Overlay was (\$6.7) million, which rounds to less than 0.1% of the total asset allocation.

### Market Value of Investments

(Fiscal years ended June 30)

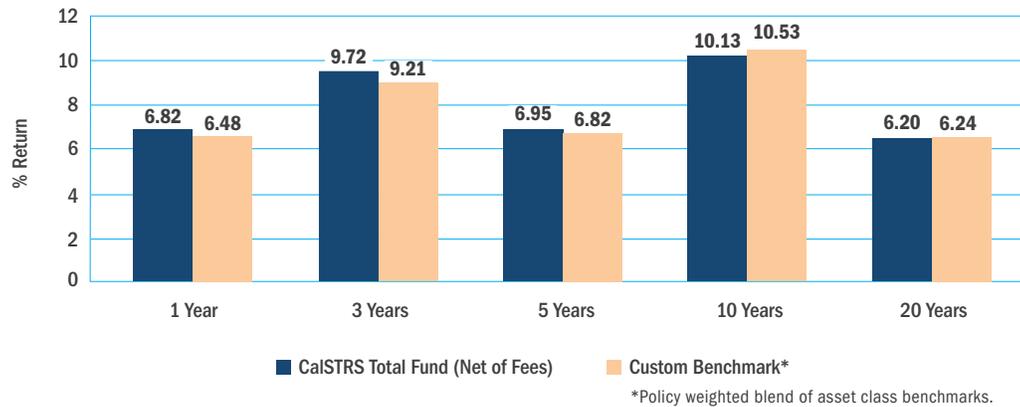


## Investment Performance

The CalSTRS Investment Portfolio posted an approximate 6.82% 1-year return calculated on a net of fees time-weighted return basis for fiscal year 2018-19. The following charts show CalSTRS returns versus custom benchmarks as of June 30, 2019. Benchmarks are goals and standards used to measure investment performance.

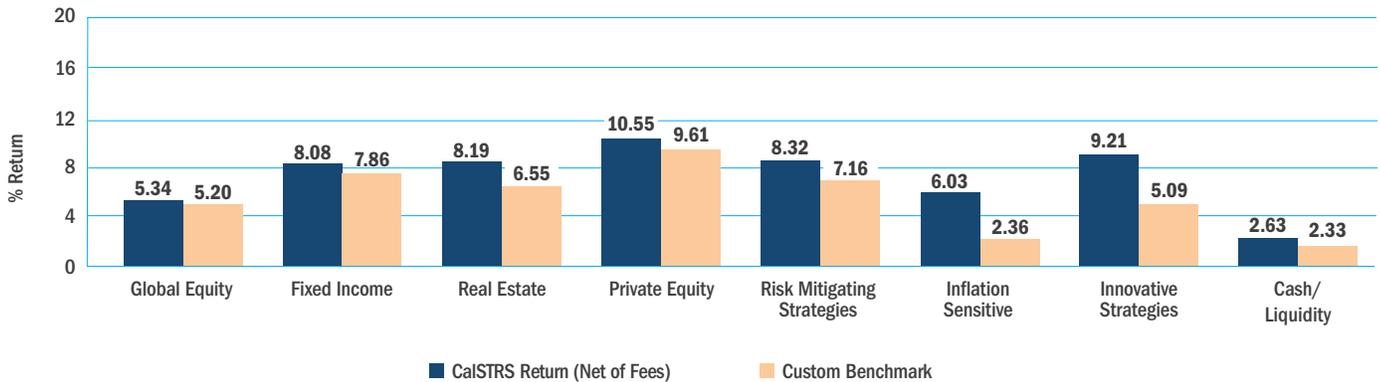
### Time-Weighted Returns

As of June 30, 2019



### One-Year Time-Weighted Returns by Portfolio Types

As of June 30, 2019



# 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 \$12.0 billion in benefits to 229,546 retirees living in California during fiscal year 2018-19. The following map and chart show 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 the CalSTRS Member Service Centers.

## Defined Benefit Program

### Retirees Who Live in California—Characteristics by County



County	Number of Retirees	Estimated Benefits Paid in FY 2018-19 <sup>1</sup>
Alameda	7,676	\$402,160,992
Alpine	13	456,612
Amador	434	18,561,312
Butte	2,220	100,539,360
Calaveras	591	26,708,472
Colusa	122	5,551,488
Contra Costa	7,641	376,303,968
Del Norte	248	10,618,368
El Dorado	2,252	110,474,112
Fresno	6,434	323,192,688
Glenn	138	6,292,800
Humboldt	1,395	55,024,380
Imperial	827	48,091,704
Inyo	163	6,656,268
Kern	4,378	230,160,216
Kings	613	31,388,052
Lake	490	20,803,440
Lassen	234	10,353,096
Los Angeles	43,604	2,401,708,320
Madera	1,357	64,566,060
Marin	2,349	108,270,108
Mariposa	276	11,760,912
Mendocino	1,132	48,046,608
Merced	1,544	82,801,632
Modoc	93	3,487,500
Mono	189	8,752,212
Monterey	3,129	157,814,244
Napa	1,437	68,958,756
Nevada	1,642	73,357,992
Orange	21,380	1,281,260,640
Placer	4,377	221,126,040
Plumas	331	13,894,056
Riverside	13,009	683,440,824
Sacramento	9,263	442,956,660
San Benito	320	17,210,880
San Bernardino	9,612	509,474,448
San Diego	21,412	1,112,567,520
San Francisco	2,932	142,143,360
San Joaquin	4,037	208,599,864
San Luis Obispo	4,345	207,934,320
San Mateo	3,745	208,162,080
Santa Barbara	2,996	145,461,792
Santa Clara	9,379	523,235,652
Santa Cruz	2,859	137,334,924
Shasta	1,658	73,873,848
Sierra	71	3,141,324
Siskiyou	606	24,484,824
Solano	3,053	148,009,440
Sonoma	4,523	213,413,232
Stanislaus	3,193	174,184,536
Sutter	764	39,504,912
Tehama	730	33,296,760
Trinity	140	5,718,720
Tulare	3,090	162,558,720
Tuolumne	682	31,631,160
Ventura	6,912	366,861,312
Yolo	1,150	52,081,200
Yuba	356	16,173,792
<b>Total</b>	<b>229,546</b>	<b>\$12,012,598,512</b>

<sup>1</sup>The annualized benefits were estimates based on the June 2019 monthly allowance.

# TEACHERS' RETIREMENT BOARD\*

## SHARON HENDRICKS

Board Chair  
Community College Instructor  
Term: January 1, 2016–  
December 31, 2019<sup>1</sup>

## HARRY M. KEILEY

Board Vice Chair  
K-12 Classroom Teacher  
Term: January 1, 2016–  
December 31, 2019<sup>1</sup>

## KEELY BOSLER

Director of Finance  
Ex Officio Member

## DANA DILLON

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

## JOY HIGA

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

## FIONA MA

State Treasurer  
Ex Officio Member

## WILLIAM PREZANT

Public Representative  
Term: March 26, 2019–  
December 31, 2022

## TONY THURMOND

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

<sup>1</sup>Board members were re-elected and will serve a 4-year term beginning on January 1, 2020.

Note: Board members are listed as of the date this report is issued.

The Teachers' Retirement Board administers CalSTRS and sets policies and rules to ensure benefits are paid according to the law.

The 12-member board is composed of:

- Three active CalSTRS members elected by current educators.
- One retired CalSTRS member appointed by the Governor and confirmed by the Senate.
- Three public representatives appointed by the Governor and confirmed by the Senate.
- One school board representative appointed by the Governor and confirmed by the Senate.
- Four board members who serve in an ex-officio capacity by virtue of their office: Director of Finance, State Controller, State Superintendent of Public Instruction and State Treasurer.

The board appoints a Chief Executive Officer to administer CalSTRS consistent with the board's policies and rules and selects a Chief Investment Officer to direct the CalSTRS Investment Portfolio in accordance with board policy.

## CalSTRS Resources



### WEB

CalSTRS.com  
Click *Contact Us* to email  
myCalSTRS.com  
403bCompare.com  
Pension2.com

### STAY CONNECTED



### CALL

800-228-5453  
7 a.m. to 6 p.m.  
Monday through Friday  
916-414-1099  
Calls from outside the U.S.  
888-394-2060  
CalSTRS Pension2®  
Personal Wealth Plan  
855-844-2468 (toll free)  
Pension Abuse Reporting Hotline



### WRITE

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



### VISIT

Member Services  
100 Waterfront Place  
West Sacramento, CA 95605  
Find your nearest  
CalSTRS office at  
CalSTRS.com/localoffices



### FAX

916-414-5040