

2022-23 Annual Budget

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM



2,669.11	634.84	18,1
1,043.51	101.92	82
2,211.24	448.64	1
355.00	738.35	853.30
1,562.66	2,571.77	
2,972.16	1,435.03	
106.26	1,600.00	
492.20		

CALSTRS[®]

Our Mission: Securing the financial future and sustaining the trust of California's educators.

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The California State Teachers' Retirement System

Mission

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

Vision

Your reward—
A secure retirement

Our reward—
Getting you there

Core Values

The CalSTRS Core Values are a set of attitudes, beliefs and behaviors that define CalSTRS and our employees. These guiding principles are fundamental to our success and drive the work we do and how we serve our members.

Customer Service

We never compromise on quality as we strive to meet or exceed the expectations of our customers.

Accountability

We operate with transparency and accept responsibility for our actions.

Leadership

We model best practices in our industry and innovate to achieve higher standards.

Strength

We ensure the strength of our system by embracing a diversity of ideas and people.

Trust

We conduct ourselves with integrity, acting ethically in every endeavor.

Respect

We respect the needs of our members, co-workers, and others—treating everyone with fairness, honesty and courtesy.

Stewardship

We recognize our fiduciary responsibility as the foundation for all decision making.



June 10, 2022

Chief financial officer's letter of transmittal

As one of the oldest and largest teacher pension systems in the world, CalSTRS is dedicated to creating sustainable retirement benefits for California's public school educators. With a strong focus on transparency and accountability, and a clear understanding of what drives value, we remain committed to our fiduciary responsibility as the foundation for all decision making and continue to deliver on our mission: *Securing the financial future and sustaining the trust of California's educators.*

As part of California's response to mitigate the fiscal impact of the COVID-19 pandemic on California's economy, the state issued several budget directives impacting fiscal years 2020–21 through 2022–23, requiring state agencies to maintain a structurally balanced budget. As a result of these directives, our 2020–21 and 2021–22 budgets underwent several mandatory reductions. For 2022–23, the state maintained focus on continued budget resiliency, and directed agencies to remain fiscally prudent. Throughout this time, we remained committed to improving our financial position, enhancing services to our members and employers, and safeguarding our assets.

In 2022–23, we embark upon our new 2022–25 Strategic Plan, demonstrating how our mission and vision will be advanced over the next three years. Our current strategic plan priorities embody our commitment to a well-governed, financially sound trust fund, leading innovation and managing change, and the continued integration of sustainability throughout our culture, policies and practices. Guided by our strategic plan, our 2022–23 budget focuses on continuity of core business functions, while fostering innovative business transformation. Key initiatives include enterprisewide operational support and management activities to facilitate ongoing business operations safely and securely and increasing the level of internally managed assets while managing overall growth of the CalSTRS Investment Portfolio. Aligned with these priorities, our total 2022–23 budget is \$687.9 million, including 1,293 authorized positions.

The 2022–23 budget includes an additional \$24.9 million in funding for property management services for the CalSTRS Headquarters property. Property management services are for management, operation, maintenance, and capital improvements. Our headquarters property includes our current headquarters building and our expansion facility, located in West Sacramento, California. The expansion facility is a new 10-story tower designed to support sustainable green building practices and is expected to be completed in early 2023.

Supporting our technology and infrastructure platforms is a critical component of delivering quality services to our members and their beneficiaries, employers and various stakeholder communities. The 2022–23 budget includes an additional \$5.8 million for various information technology capabilities, including strengthening our overall information security posture, hardware and software maintenance and support, and continued integration of cloud-based solutions. This funding will also be used for software tools to support a longer-term blended work environment in which staff work both remotely and on-site.

We are also in the process of replacing our legacy pension administration system with modern functionality. Through this multiyear project, we seek to enhance our ability to respond to customer and business needs, gain long-term operational efficiencies, improve internal controls, and enhance services to more than 980,000 members and their beneficiaries, as well as the school employer community. Despite making progress toward implementing the new benefit system, the project is experiencing delays. We are in the process of quantifying the impact of the revised project schedule on our budget and will provide an update to our stakeholders once it is determined. At this time, our 2022–23 budget does not include the fiscal impacts of the schedule delay.

As part of our ongoing efforts to address operational workload management, the 2022–23 budget includes \$1.7 million for 10 authorized positions to strengthen CalSTRS' information security and data management efforts, enhance business resilience capabilities, advance business agility and streamline processes and operational oversight. By ensuring the organization is adequately resourced, this investment enables the organization to continue building a strong, adaptable and diverse workforce to serve our members.

Maintaining a financially sound retirement system remains a top priority. We ended the 2020–21 fiscal year with an investment return of 27.2%, significantly higher than the assumed investment rate of 7%. This historic return notably improved projected funding levels from 67.1% to 73.0% for the Defined Benefit Program, compared to the prior fiscal year. Full funding is now expected to occur in 2041, five years ahead of schedule, based on current assumptions, reflecting the positive impact of last year's events. While this exceptional investment performance is welcome news, we remain cognizant of the risks associated with volatile markets and will continue diligently working toward the long-term sustainability and integrity of the fund.

Recognizing investment costs have an impact on investment returns is part of our fiduciary responsibility. Consistent with this responsibility, we continue with the expansion of the CalSTRS Collaborative Model. The Collaborative Model is an investment strategy to manage more assets internally to reduce costs and generate higher returns to support a strong investment portfolio. In support of this effort, the Teachers' Retirement Board approved a five-year plan in November 2020, in the amount of \$40.9 million for 109 authorized positions scheduled to be dispersed across fiscal years 2021–22 through 2025–26. This budget includes funding for the second year of scheduled expenditures in the amount of \$7.8 million to support the growth of the Collaborative Model.

Understanding and adapting to the financial implications of the global economic environment to our organization is essential to the success of carrying out our mission. Looking ahead, I remain confident, as we continue to exemplify prudent operational and fiscal resilience through thought leadership, nimbleness, and trust. These guiding principles are the hallmarks of our success and drive the work we do and how we serve our members.

Respectfully submitted,



Julie Underwood
Chief Financial Officer
CalSTRS



The Government Finance Officers Association
of the United States and Canada

presents this

CERTIFICATE OF RECOGNITION FOR BUDGET PREPARATION

to

**Finance Department
California State Teachers' Retirement System, California**



The Certificate of Recognition for Budget Preparation is presented by the Government Finance Officers Association to those individuals who have been instrumental in their government unit achieving a Distinguished Budget Presentation Award. The Distinguished Budget Presentation Award, which is the highest award in governmental budgeting, is presented to those government units whose budgets are judged to adhere to program standards.

Executive Director

Christopher P. Morill

Date: **October 06, 2021**

The Government Finance Officers Association of the United States and Canada presented a Distinguished Budget Presentation Award to the California State Teachers' Retirement System for our 2020–21 and 2021–22 Biennial Budget presentation. This is the third consecutive year we have received this prestigious award.

To receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, operations guide, financial plan and communications device. This award is valid only for fiscal years 2020–21 and 2021–22. We believe our 2022–23 Annual Budget continues to meet these program requirements and are submitting it to the GFOA to determine its eligibility for another award.

About the California State Teachers' Retirement System

CalSTRS overview¹

The California State Teachers' Retirement System was established in 1913 to provide retirement benefits to California's public-school educators. CalSTRS administers a hybrid retirement system, consisting of traditional defined benefit, cash balance and defined contribution plans, and provides disability and survivor benefits for California's full-time and part-time public school educators from prekindergarten through community college, and certain other employees of the public school system. We also administer a post-employment health benefit program and a voluntary defined contribution plan.

As a global institutional investor with \$308.6 billion in investment portfolio assets as of June 30, 2021, CalSTRS is the largest educator-only pension fund in the world and the second largest pension fund in the United States. Headquartered in West Sacramento, California,

CalSTRS serves California's more than 980,000 dedicated educators and their beneficiaries, employed by approximately 1,800 school districts, community college districts, county offices of education and other public education employers.

With seven member service centers across California, CalSTRS provides a breadth of retirement and benefits planning services and education to our members.

CalSTRS is governed by the 12-member Teachers' Retirement Board. The board members carry fiduciary responsibility to ensure the system is sustainable over the long term in order to pay benefits and provide related services to CalSTRS members and their beneficiaries. Additional details related to the CalSTRS organization are provided in Appendix 1.

¹ All numbers in this report are rounded for presentation purposes.

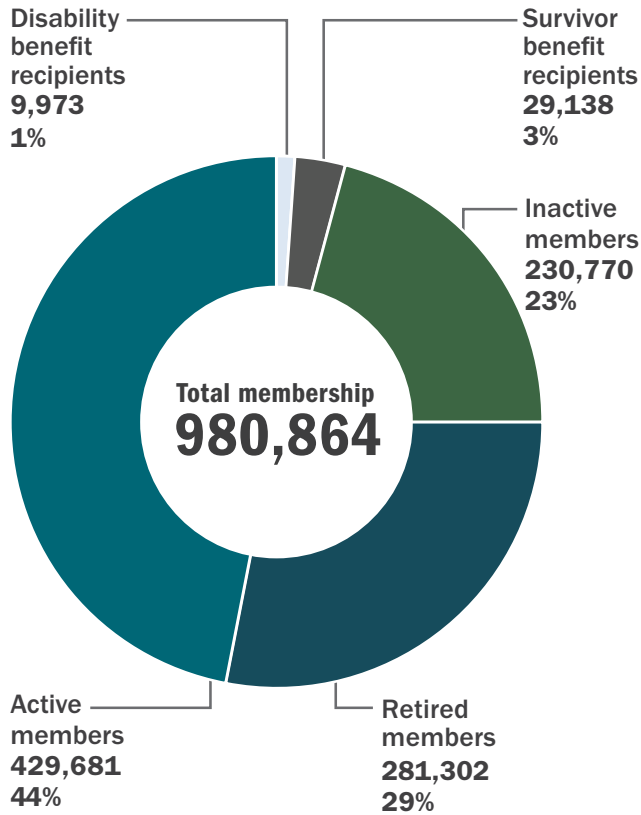
Our history

CalSTRS has been securing the financial future of California's educators for over a century. From our humble beginnings in 1913, with only 120 retired and 15,000 active members, CalSTRS now serves more than 980,000 public school educators and their beneficiaries.

- 1913** Public School Teachers' Retirement Salary Fund is established on July 1, 1913, with 120 retired members and 15,000 active members. Annual member pension is \$500.
- 1935** School districts begin contributing to CalSTRS for the first time.
- 1944** CalSTRS vesting changes from 30 years to 10 years.
- 1956** Benefits calculated based on a fixed percentage of final compensation, rather than a fixed value.
- 1958** Vesting is reduced from 10 years to its present 5-year minimum.
- 1963** First tax-sheltered annuity program is established.
- 1970** CalSTRS begins investing in real estate and equity investments.
- 1987** CalSTRS first began to manage Fixed Income assets internally.
- 1991** CalSTRS begins global diversification of the portfolio.
- 2004** CalSTRS becomes the second-largest defined benefit pension plan in the U.S.
- 2007** Portfolio posts a 21% return, which places CalSTRS in the top 1% of all U.S. pension plans at \$175 billion.
- 2009** CalSTRS moves to its current headquarters location, which included the opening of its first California member service center, in West Sacramento.
- 2013** CalSTRS celebrates 100 years.
- 2019** CalSTRS announces the opening of its seventh California member service center in Fresno and commences construction of its headquarters expansion in West Sacramento.
- 2020** CalSTRS embarks on a low-carbon economy transition work plan that seeks to reduce climate-related risk and identify opportunities to invest in climate-related solutions for maximum benefit to our members.
- 2021** Portfolio earned a historic 27.2% return net-of-fees, ending with a value of \$308.6 billion as of June 30, 2021. Additionally, CalSTRS adopted a pledge to achieve net zero greenhouse gas emissions across the CalSTRS Investment Portfolio by 2050 or sooner.

Services to members and employers

2021 membership by the numbers



CalSTRS' vision is to ensure our members understand their retirement benefits and make informed decisions to secure their financial futures. Consistent with the **2022-25 Strategic Plan**, CalSTRS is committed to providing exceptional service to our members and their employers. Resources are strategically allocated throughout the organization to advance CalSTRS' ability to deliver promised retirement benefits to our members.

Member service centers¹

CalSTRS operates seven member service centers throughout California, with locations in West Sacramento (headquarters), Glendale, Santa Clara, Irvine, Riverside, San Diego, and Fresno. As part of advancing the organization's ability to deliver promised retirement benefits, member service centers offer financial and retirement education through webinars, workshops, benefits planning sessions, outreach and telephone and in-office assistance. Due to the COVID-19 pandemic, CalSTRS converted all in-person workshops and group benefits planning sessions to webinar format during the 2020-21 fiscal year.

Member outreach and communication

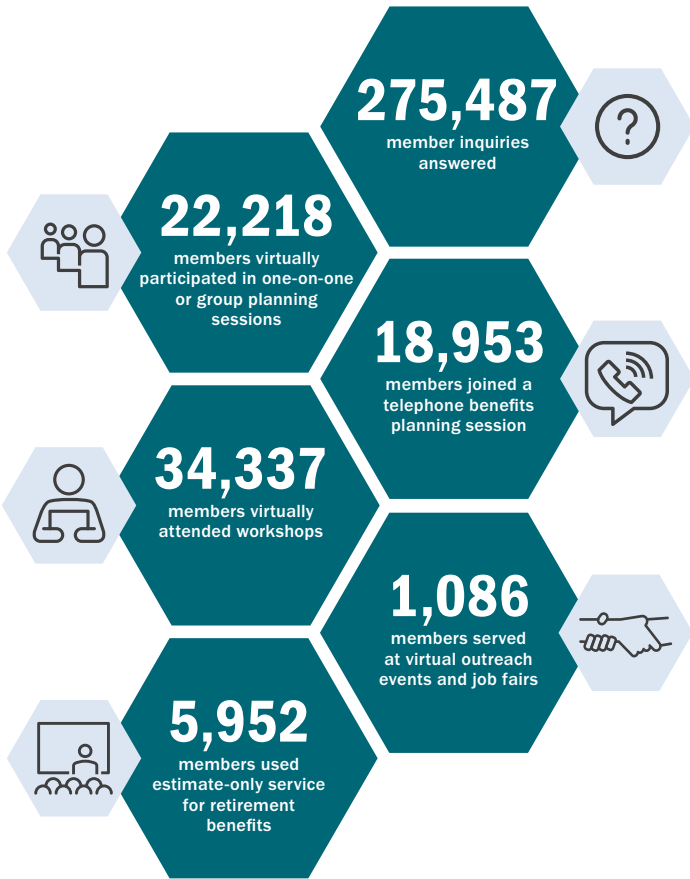
Every year, tens of thousands of members take advantage of these services, as well as the opportunity to walk into our member service centers and receive personal assistance related to their retirement benefits. Members may contact a CalSTRS Contact Center agent by phone, secure online message or written correspondence. 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.



Watch this video tour of the San Diego Member Service Center to learn about the services offered.

¹ Refer to our **member service centers** webpage for information on locations and current hours of operation.

Connecting with members to engage and inform in 2020–21



During fiscal year 2020–21, following guidance from local public health agencies and the State of California, all CalSTRS member service centers were closed due to the COVID-19 pandemic. Despite these closures, CalSTRS staff remained available for individual benefits planning sessions via telephone. All in-person workshops and group benefits planning sessions were converted to webinar format.

This year, 56,555 members virtually attended individual or group benefits planning sessions or workshops. An additional 1,086 members received services at virtual outreach events and job fairs.

We communicate with our active and retired members through a variety of channels, including four websites—CalSTRS.com, myCalSTRS, Pension2.com and 403bCompare.com—to support member interactions and active involvement in retirement planning.



Growth on social media platforms in 2020-21



↑ **6%**
+3,088 new Facebook likes



↑ **4%**
+709 new Twitter followers



↑ **24%**
+1,607 new LinkedIn followers



↑ **12%**
+358 new Instagram followers

In addition, we provide a balanced mix of feature-oriented, informative and industry-focused messaging across social media platforms. By regularly posting informative content, we encourage member and stakeholder engagement on Facebook, Twitter, LinkedIn, Instagram, YouTube and Pinterest.

Service to members does not stop at customer contact. Staff also conduct intensive research to understand our members' satisfaction and retirement preparedness, which helps us provide members with useful products and services. We monitor member satisfaction by regularly surveying stakeholders to ensure they receive accurate, timely and thorough answers to their questions. These surveys allow us to monitor overall trends in our programs that help us meet our members' needs. Additional membership statistics are provided in Appendix 1.



Institutional investing

Investment overview

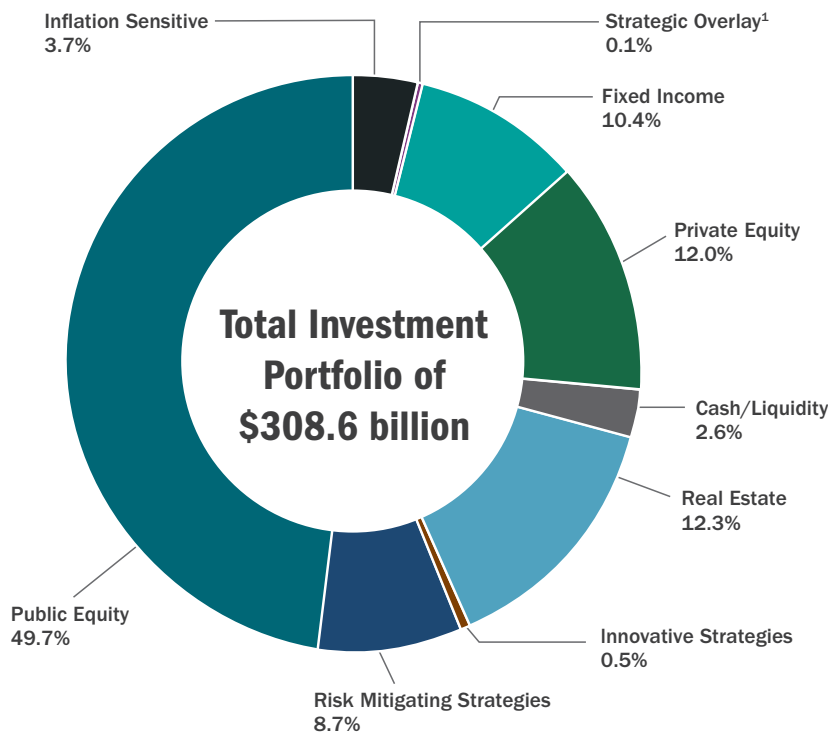
CalSTRS is a long-term investor, and ultimately, our goal is to generate returns to meet the retirement benefits of our members and their beneficiaries. We honor this responsibility with diligence and integrity. Consistent with this vision, and as the trusted fiduciaries of the system, we strive to derive the most value from the investments we make to deliver promised retirement benefits.

As a global institutional investor, we take steps to balance risk with opportunity to preserve the integrity and strength of the fund. Managing an investment portfolio, with assets of \$308.6 billion as of June 30, 2021, requires thoughtful diligence to monitor investment performance, analyze projections and take necessary action to ensure a stable, risk-adjusted return profile.

Our primary performance objective is to achieve the assumed actuarial rate of return of 7.0% over the long term, at a prudent level of risk, while upholding our investment philosophy in long-term patient capital.

The CalSTRS Investment Portfolio continues to be broadly diversified, holding investments ranging from publicly traded securities to privately held partnerships, spanning across both domestic and international markets. The global investment portfolio follows a strategic asset allocation policy, set by the Teachers' Retirement Board, that targets the percentage of funds invested in each asset class. The asset allocation process maximizes the likelihood that an investment portfolio's assets will, over time, fund plan benefits. Our investment portfolio allocation for the fiscal year ended June 30, 2021, is provided in the following chart.

CalSTRS asset allocation as of June 30, 2021



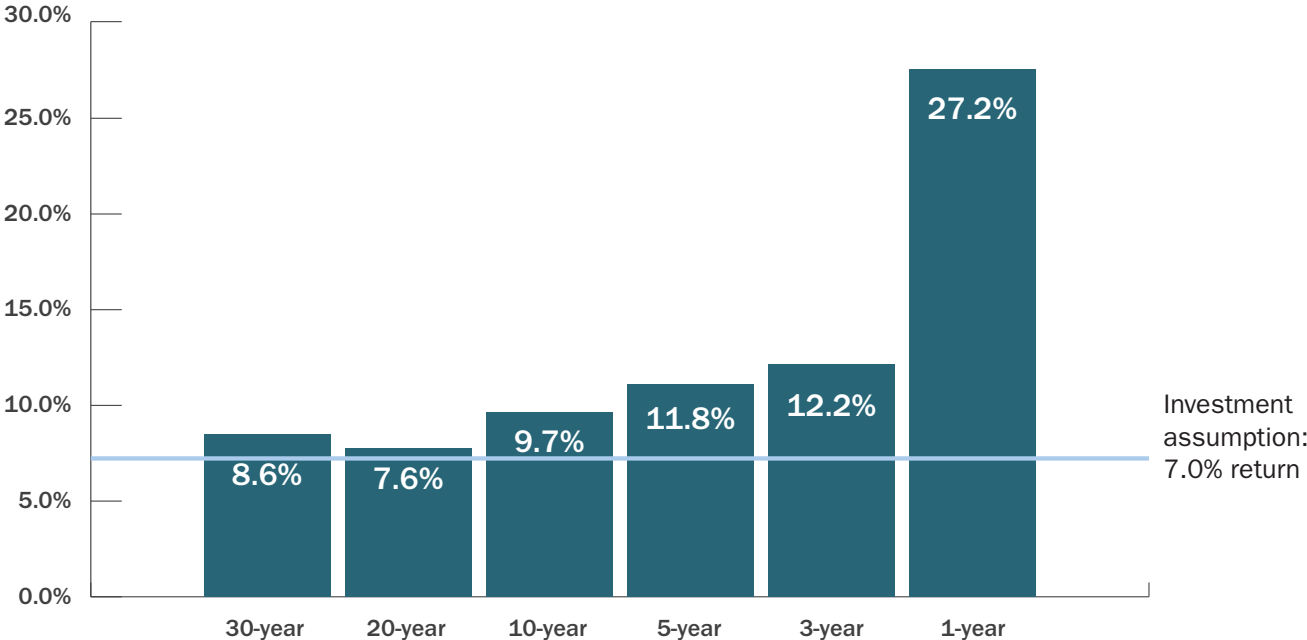
1. Strategic Overlay consists of the Currency Management Program and Derivative Overlay.

Investment performance

The CalSTRS Investment Portfolio earned a time-weighted investment return of 27.2% net-of-fees, significantly higher than the 7.0% assumed actuarial rate of return for funding purposes for the fiscal year ended June 30, 2021. The portfolio increased by \$62.6 billion over the prior fiscal year, ending with a fund value at \$308.6 billion. CalSTRS' one-year return ranked in the top quartile of all public pension plans in the U.S.

CalSTRS is a long-term investor with a goal of achieving an average return of 7.0% over a multiyear horizon to meet pension obligations for current and future retirees. Therefore, we look beyond the immediate effects of a single year's returns. CalSTRS net time-weighted returns over a 30-year period are provided below.

CalSTRS net time-weighted returns as of June 30, 2021



Transforming business strategies through the CalSTRS Collaborative Model

In alignment with our longer-term strategic initiatives and consistent with the first goal of CalSTRS' strategic plan—to ensure a well-governed, financially sound trust fund—the organization has continued expansion of the CalSTRS Collaborative Model.

The CalSTRS Collaborative Model is an investment strategy to manage more assets internally—to reduce costs, control risks and increase expected returns—and leverage our external partnerships to achieve similar benefits. The main strategy is to search for long-term cost savings and hybrid opportunities through investment management and by leveraging existing relationships. These efforts are projected to reduce costs and generate higher returns to support a strong investment portfolio. It is anticipated that these cost savings will be greater as more private assets are transitioned to internal management. We have a significant opportunity to optimize costs, control risks and increase investment returns as we continue to manage and grow the portfolio of assets managed internally.

In support of this effort, the board approved a multiyear internal investment management plan in November 2020, in the amount of \$40.9 million to establish 109 authorized positions scheduled to be dispersed across fiscal years 2021–22 through 2025–26. Additional information on the Collaborative Model is provided in the “Budget overview” section.



Watch this Inside CalSTRS Investments video in which CalSTRS' Chief Investment Officer Christopher J. Ailman describes a new approach to our investment strategy: The Collaborative Model.

Commitment to net zero¹

In September 2021, the Teachers' Retirement Board adopted a pledge to achieve net zero greenhouse gas emissions across the CalSTRS Investment Portfolio by 2050 or sooner, aligning with the science-based targets of the Paris Agreement. The board approved an implementation framework consistent with the United Nations' Race to Zero campaign, the largest global effort to address climate change. We continue to expand our engagement efforts to drive positive change within our portfolio. We see engagement as a powerful tool to influence the market and ensure companies are sustainable. These efforts provide long-term risk adjusted returns to strengthen the fund.

One area of emphasis in our engagement efforts is the need for a company's board to effectively manage and mitigate material risks to add long-term financial return for its shareholders and positive global impact for its stakeholders.

¹ Refer to our [sustainable investing](#) webpage for additional information on the path to net zero.

Organizational governance and leadership structure

Teachers’ Retirement Board

CalSTRS is administered by the 12-member Teachers’ Retirement Board. The board sets the policies and rules for the system and is responsible for ensuring benefits are paid. Consistent with Article 16, Section 17, of the California Constitution, the board maintains plenary authority and fiduciary responsibility for the investment of monies and administration of the system.

The board is composed of 12 members:

- Five members appointed by the Governor and confirmed by the Senate for a term of four years: one school board representative, one retired CalSTRS member and three public representatives.

- Four ex officio members who serve for the duration of their term in office: the California Director of Finance (who is appointed by the Governor and confirmed by the Senate), the California State Controller, the California State Treasurer and the State Superintendent of Public Instruction.
- Three member-elected positions representing current educators who serve for a term of four years.

The board has six standing committees: Appeals, Audits and Risk Management, Benefits and Services, Board Governance, Compensation and Investment. The board appoints a chief executive officer to administer the system consistent with the board’s policies and rules. The board also selects a chief investment officer to direct investments of the portfolio in accordance with board policy.

Committee	Purpose
Appeals	The Appeals Committee provides a dedicated body to hear, deliberate upon and decide appeals of CalSTRS determinations pursuant to the Administrative Procedure Act.
Audits and Risk Management	The Audits and Risk Management Committee assists the board in fulfilling its fiduciary oversight responsibilities for financial reporting, risk management, internal control, compliance, internal audit, external audit of the financial statements and engagements with other external firms.
Benefits and Services	The Benefits and Services Committee develops and oversees the execution of prudent policies relating to levels of benefits and the delivery of services to CalSTRS members, retirees and their beneficiaries.
Board Governance	The Board Governance Committee supports the board in promoting the best interests of CalSTRS, its members, retirees and their beneficiaries through the implementation of sound board governance policies and practices that enhance good, fair and open decision-making.
Compensation	The Compensation Committee provides oversight to CalSTRS’ compensation policies and plan that support the successful recruitment, development and retention of talent to meet the business objectives of CalSTRS.
Investment	The Investment Committee administers all matters relating to the investment of assets and investment management. The committee is charged with administering the investment of assets for the exclusive purpose of providing benefits to members and their beneficiaries and maximizing the financial stability of CalSTRS in an efficient and cost-effective manner.

Teachers' Retirement Board¹



HARRY M. KEILEY
Board Chair
K-12 Classroom Teacher
Term: January 1, 2020 –
December 31, 2023



SHARON HENDRICKS
Board Vice Chair
Community College Instructor
Term: January 1, 2020 –
December 31, 2023



KEELY BOSLER
Director of Finance
Ex Officio Member



DENISE BRADFORD
K-12 Classroom Teacher
Term: January 1, 2020 –
December 31, 2023



FIONA MA
State Treasurer
Ex Officio Member



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



KEN TANG
School Board Representative
Term: November 4, 2021 –
December 31, 2023



TONY THURMOND
State Superintendent of
Public Instruction
Ex Officio Member



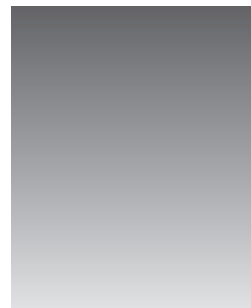
JENNIFER URDAN
Public Representative
Term: August 12, 2020 –
December 31, 2023



KAREN YAMAMOTO
Retiree Representative
Term: February 13, 2020 –
December 31, 2023



BETTY YEE
State Controller
Ex Officio Member



VACANT
Public Representative

¹ Board members are listed as of the date this report is issued.

Executive staff¹

Executive



CASSANDRA LICHNOCK
Chief Executive Officer

CalSTRS executive staff are committed to implementing the direction set by the Teachers' Retirement Board and are responsible for day-to-day operations of the system.

Investments



CHRISTOPHER J. AILMAN
Chief Investment Officer



LISA BLATNICK
Chief Operating Officer

Financial Services



JULIE UNDERWOOD
Chief Financial Officer

General Counsel



BRIAN J. BARTOW
General Counsel



SCOTT CHAN
Deputy Chief Investment Officer



MELISSA NORCIA
Chief Administrative Officer

Benefits and Services



WILLIAM PEREZ
Chief Benefits Officer

Public Affairs



TERESA SCHILLING
Chief Public Affairs Officer

Technology Services



ASHISH JAIN
Chief Technology Officer

¹ Executive staff are listed as of the date this report is issued.

Strategic plan and performance measurement

2022–25 Strategic Plan

The **2022–25 Strategic Plan** demonstrates how our mission and vision will be advanced over the next three years. Our strategic plan is the product of more than a year of rigorous research, environmental scans including a stakeholder survey, and intensive discussions between executive staff and the board. This plan inspires greater innovation throughout the organization while supporting a cost-conscious culture and creating long-term value through our sustainable investment beliefs. We are proud of the wide-ranging work completed in the development of this new plan that fuels our forward momentum

and guides our future direction, while reaffirming our commitment to sustaining the trust of California’s educators as we focus on plan funding and evolve the customer experience by creating greater efficiencies.

This three-year plan established three overarching goals and supporting objectives to guide our collective direction and measures to evaluate our success. The supporting objectives for each goal are tactically operationalized in annual business plans with initiatives and key activities.

Goal 1: Trusted stewards

Ensure a well-governed, financially sound trust fund.

Objective A

Achieve full funding of the Defined Benefit Program by June 30, 2046.

Objective B

Operationalize sustainable investment beliefs to create long-term value.

Objective C

Execute the CalSTRS Collaborative Model 2.0 phase of the continuum.

Objective D

Grow strategic relationships with policymakers, stakeholders and partner organizations.

Objective E

Enhance how risks are defined, viewed and managed.

Goal 2: Leading innovation and managing change

Innovate to grow resiliency and efficiency in service of our members.

Objective A

Implement and integrate a highly adaptive pension administration system to modernize transactional capabilities.

Objective B

Grow capabilities and culture to support a strategic and innovation mindset.

Objective C

Enhance the customer experience to improve engagement and reduce effort.

Objective D

Explore advanced technology to securely gain business agility and enhance user interface experience.

Objective E

Innovate, streamline and automate processes to increase efficiency.

Objective F

Transform business processes and drive digital adoption.

Goal 3: Sustainable organization

Fully integrate a unified environmental, social and governance ethos in all we do.

Objective A

Shape a resilient, sustainable, blended workforce that reflects fully integrated diversity, equity and inclusion practices.

Objective B

Integrate and align ESG principles across the organization.

Objective C

Complete headquarters expansion and transition activities.

Objective D

Strengthen preparedness capabilities to address change and disruptions.

CalSTRS business plan

Guided by the strategic plan, executive staff develop and implement annual business plans outlining specific activities to accomplish the 2022–25 Strategic Plan goals and objectives. The plan includes initiatives and key activities designed to advance the strategic plan goals and objectives. The business plan provides essential information about the current fiscal year, including key priorities and objectives. The budget allocates resources according to both longer-term strategic and shorter-term business plan priorities.

Development of the annual plan process commences in March. Through consensus, business plan initiatives and key activities are adopted by executive staff. Upon finalization of the business plan initiatives and key activities, the annual business plan for the upcoming fiscal year is presented to the board in July.

Performance measurement

Performance reporting

Performance data is collected to determine CalSTRS' success in meeting our established targets. This data is reported and reviewed in different forums throughout the year. These forums foster collaborative dialogue and drive organizational performance and decision making. The four key performance review meetings held at CalSTRS are:

Branch business reviews

Directors report quarterly to their branch executive on a range of key performance measures for their branches.

Customer service performance reviews

Directors of member-facing operations present results for service level objectives to executives on a quarterly basis.

Operations performance reviews

Directors of CalSTRS internal operations report to executives on the status of key performance indicators for their major responsibilities on a quarterly basis. In addition, this forum informs and assists the organization in fulfilling its oversight and fiduciary responsibilities in the achievement of the organization's strategic and operational objectives.

Quarterly performance reviews

CalSTRS executives and directors report to leadership on organizational performance, and CalSTRS management shares information on division performance for the prior quarter and provides guidance for future quarters.

Accomplishments report

At the end of each fiscal year, progress on business plan initiatives and strategic plan measures is reported and evaluated through an accomplishments report to the Teachers' Retirement Board. This annual report assesses the organization's progress in achieving measurable objectives established by the board in the strategic plan and evaluates the continuance of initiatives identified in the CalSTRS business plan. In alignment with our mission, vision and strategy, the status of noteworthy accomplishments in 2020–21 are presented on the following pages. Accomplishments for the final year of the 2019–22 Strategic Plan will be presented in next year's budget report.

CalSTRS 2020–21 Strategic Plan significant accomplishments

Goal 1 — Financial/Governance: Ensure a well governed, financially sound retirement system.

Objective A: Achieve full funding of the Defined Benefit Program by June 30, 2046.

- The CalSTRS Investment Portfolio returned 27.2% net-of-fees for the fiscal year ended June 30, 2021, and recorded the year-end fund value at \$308.6 billion.
- Presented the actuarial valuation for the Defined Benefit Program to the board in June 2021. The valuation provides a snapshot in time of the system’s financial health and is part of the ongoing effort to monitor and assess the system’s ability to meet its long-term commitments.

Objective B: Integrate CalSTRS’ sustainable investment and stewardship strategies, which support long-term value creation and educate and inform interested parties.

- Revised asset class policies to include environmental, social and governance risks.
- Engaged with CalSTRS-led Climate Action 100+ companies and outlined expectations for progress.

Objective C: Leverage investment cost information to yield long-term benefits.

- Presented the 2019 Annual Investment Cost Report. This calendar-year report tracks our investment expenses and fees, and provides trends, a peer comparison of data, and the cost effectiveness of the Teachers’ Retirement Fund asset classes and strategies over time.
- Created reporting of CalSTRS Collaborative Model fee savings data.

Objective D: Implement CalSTRS Collaborative Model leveraging all of CalSTRS resources.

- Explored strategies across the CalSTRS Investment Portfolio to reduce costs, increase returns and control risks. This included investigating and analyzing opportunities to increase co-investments and obtaining majority ownership in investment management companies and projects at low values across all asset classes.

Objective E: Enhance board meeting effectiveness and efficiency.

- Developed a new public comment framework. Communication strategies are now in place to conduct meetings efficiently while allowing public participation.

Goal 2 — Digital Transformation: Leverage technology to securely transform business and service delivery models to maximize operational efficiency.

Objective A: Implement and integrate a highly adaptive pension administration system.

- Completed pre-user acceptance testing activities.
- Provided regular, ongoing communication to the organization and stakeholders providing updates on progress, schedule delays and the path forward.

Objective B: Secure the confidentiality and integrity of data and member information.

- Embarked on processes to produce updated policies and standards that more closely align with modern technology, strategic direction and industry best practices, while also decreasing time and effort for cybersecurity compliance assessments and reporting.

Objective C: Enhance business resiliency capabilities.

- Activated multifactor authentication technology to secure remote access to our information systems and implemented a new anti-virus technology to protect our information assets while working remotely.

Objective D: Explore advanced technology to securely gain business agility and enhance user experience.

- Deployed Microsoft OneDrive to support online and offline access to files and enable greater staff collaboration in a remote environment.
- Coordinated the enterprisewide deployment of Microsoft Teams to enhance remote communication and collaboration. Researched additional remote-access technologies.

Goal 3 — Member/Employer: Strengthen partnerships and services to members, employers and stakeholders.

Objective A: Educate and inform CalSTRS constituent groups on strategic priorities.

- Created a communication and outreach strategy plan that focuses on major organizational initiatives and issues and includes a corresponding work plan.

Objective B: Enhance collaborative partnerships with employers to increase alignment on key initiatives and increase awareness about the value of CalSTRS' defined benefit plan.

- Used the fully developed Employer Partnership Communication Plan as a guide for articulating and delivering key messaging via strategic channels. The plan focuses on key messages to be integrated into targeted documents and presentations throughout the organization.

Objective C: Increase the accuracy, completeness and timeliness of employer reporting.

- Operationalized the use of a data repository that includes various data points to assist in proactively monitoring and providing financial oversight.

Objective D: Provide educational opportunities to improve the retirement readiness of CalSTRS' members.

- Hosted Financial Awareness Week. Offerings included three workshops: Save for Your Future (508 attendees), Start Saving Now with Pension2® (710 attendees) and Navigating Market Volatility with Pension2 (435 attendees).
- Embarked on efforts to modernize CalSTRS.com user interface to provide an enhanced experience for the public, members and employers.

Objective E: Grow Pension2 participation.

- Made progress toward CalSTRS IRA bill. This legislation would authorize us to offer a traditional (tax-deferred) individual retirement account in addition to a Roth IRA and accept rollovers from any eligible retirement plan to those IRAs. The legislation would also enable us to receive contributions from IRA participants and allow spouses of those participants to contribute to a CalSTRS IRA plan.
- Conducted Pension2-specific webinars and member sessions using hybrid benefit specialists. These targeted education sessions were developed to increase awareness and understanding of the need to save additional monies for retirement, so members are more prepared to meet their retirement goals.

Goal 4 — Organizational Strength: Grow capacity and enhance efficiency in alignment with the mission and vision.

Objective A: Develop board and staff competencies to respond to changing business environments.

- Created virtual team-building activities based on industry best practices research.
- Produced computer-based training modules to assist users in getting acclimated to the new collaboration tool for successful use.

Objective B: Improve business processes and reduce costs.

- Implemented a paperless process to increase online processing for certain member transactions.
- Added weekly Application Roundtable Demonstrations to assist members completing online Service Retirement Applications.

Objective C: Drive adoption of transforming business processes and technology.

- Rolled out Microsoft Office 365 Teams to enable greater collaboration, video conferencing and document sharing.
- Adapted member service center activities to serve members remotely and successfully reached expanded audiences.

Objective D: Hire, develop and retain staff to meet the needs of our changing business models and growth expectations.

- Board approved two new investment management classifications (Senior Investment Director and Senior Portfolio Manager). The new classifications will provide support to the Investments Branch and the implementation of the CalSTRS Collaborative Model.

Long-range financial planning

Integrated financial management

CalSTRS' primary goal is to maintain a well-governed, financially sound retirement system, which represents the cornerstone of our long-term financial planning. CalSTRS' long-range financial plan evaluates the system's overall funded status, considering impacts to total revenues and expenditures relative to legislative, economic and demographic changes. The long-term financial planning process assesses current funding levels to determine whether member, employer and state contribution rates are sufficient to meet the current and future obligations of the Defined Benefit Program. The key objective is to ensure long-term sustainability of the system to pay benefits to CalSTRS members and their beneficiaries.

Path to full funding

Prior to the passage of the CalSTRS Funding Plan, enacted as part of the fiscal year 2014–15 budget in **AB 1469 (Chapter 47, Statutes of 2014)**, authored by Assembly member Rob Bonta, actuarial projections indicated long-term system revenues were insufficient to fund future

retirement obligations and that, absent any changes to contribution rates, the CalSTRS Defined Benefit Program would run out of assets within 30 years. Consistent with CalSTRS' mission, the organization was committed to promoting the development of a comprehensive strategy to address the long-term funding needs of the system.

CalSTRS Funding Plan reflects a shared commitment by members, employers and the state to incrementally adjust contributions to CalSTRS in a predictable manner to fully fund the Defined Benefit Program and ensure the long-term sustainability of the fund. The contribution rates established in the funding plan at the time it was designed in 2014 were set with the goal of achieving full funding by 2046. Additionally, the funding plan provides the Teachers' Retirement Board with limited authority to increase or decrease both the state and employer contribution rates to ensure the plan remains on track and can respond, as necessary, to unexpected changes in CalSTRS' economic and demographic situation.

Key highlights¹

Addressing the existing unfunded liability continues to be at the forefront of our strategic plan, as the system continues to make progress toward reducing the funding shortfall. The current long-range financial plan is based on the June 30, 2021, (released in May 2022) actuarial valuation of the Defined Benefit Program, which reflects a steady improvement in our funded status. The funded ratio—the amount of assets on hand to pay for obligations—improved from 67.1% to 73.0%, and the unfunded liability decreased from \$105.9 billion at the June 30, 2020, valuation to \$89.7 billion as of the June 30, 2021, report. Long-term projections assume an actuarial rate of return of 7.0% for investment performance, 3.5% annual payroll growth, and additional contribution rate adjustments pursuant to the passage of the CalSTRS Funding Plan.

The CalSTRS Defined Benefit Program continues to mature, with the ratio of retirees to active members rising. The largest risk facing CalSTRS' ability to reach full funding is risk from future investment returns falling short of the assumed actuarial rate of return. Other risks include decreases in the size of the active membership or lower-than-anticipated increases in future payroll.

Significant changes in the past year

This section discusses how significant changes in the past year have impacted the results of the June 30, 2021, actuarial valuation and the projection of future funding levels. Most notably, the CalSTRS Investment Portfolio earned a 27.2% return in fiscal year 2020–21. Other significant changes include \$584 million in supplemental payments that the State of California adopted through the 2021–22 state budget, and a reduction in the number of active teachers experienced over the last fiscal year, resulting in payroll remaining below the projected 3.5% annual growth rate.

Investment return

Despite concerns raised over a year ago on the potential impact of the COVID-19 pandemic on the economy, financial markets reached record highs over the last year and CalSTRS ended the year with an actual investment return of 27.2%, significantly higher than the assumed investment rate of return of 7.0%. As a result, CalSTRS now expects the Defined Benefit Program to reach full funding prior to 2046, under current actuarial assumptions.

Contribution rates

At its May 2022 meeting, the board voted to keep the state supplemental contribution rate at the existing level of 6.311% of payroll, to ensure the state remains on the path to eliminate its share of CalSTRS' unfunded liability by 2046. This is a significant change since prior to this valuation, the state's supplemental contribution rate had been projected to increase by 0.5% of payroll per year for an additional three years. This was the result of the large investment return in fiscal year 2020–21 and the resulting decrease in the state's share of the unfunded actuarial obligation. Additionally, the board exercised for the second time the authority given by the funding plan to set the employer supplemental contribution rate. The board voted to keep the total employer contribution rate at the existing level of 19.1% of payroll.

Even though the board voted to keep the total employer rate at 19.1% of payroll, the net employer contribution rate paid to CalSTRS is expected to increase in fiscal year 2022–23. In fiscal year 2021–22, employers are currently contributing based on a rate of 16.92% of payroll. This is due to a rate relief provided by the state. As part of the 2020–21 state budget, the state redirected supplemental payments paid on behalf of employers to provide short-term contribution rate relief for anticipated economic conditions associated with the COVID-19 pandemic.

¹ These projections are based on the valuation data presented to the Teachers' Retirement Board Item #4a Actuarial Valuation of the Defined Benefit Program as of June 30, 2021.

The rate relief of 2.18% of payroll in 2021–22 is set to expire on June 30, 2022. Unless additional rate relief is provided to employers through the 2022–23 state budget, employers will see a rate increase of 2.18% of payroll in the contribution rate they pay to CalSTRS.

Supplemental state contribution payments

The State of California continued to demonstrate its commitment to the funding plan and CalSTRS’ mission by committing \$584 million in supplemental payments for CalSTRS as part of its 2021–22 budget. Specifically, the budget for the State of California included an additional \$174 million from the General Fund to bridge the gap from where the state contributions would have been had the state contribution rate not been frozen by the state in 2020–21 and \$410 million from Proposition 2 revenues to further reduce the state’s share of the unfunded liability.

Member demographics

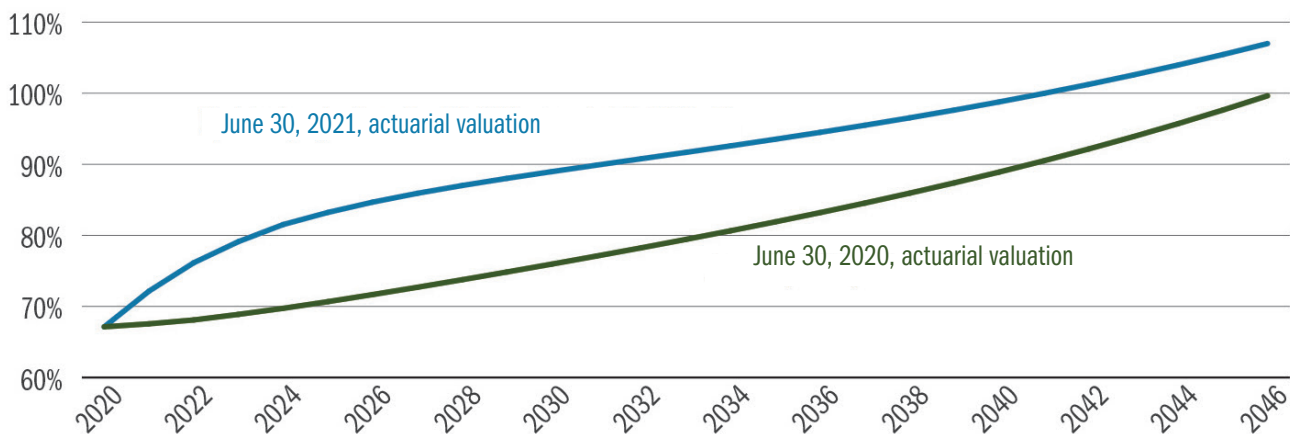
Last, the number of active teachers continued to drop. Between 2020 and 2021, the number of teachers actively working dropped from approximately 448,000 to approximately 430,000. This was the second year in a row

CalSTRS experienced a decrease in the number of active teachers. This reduction has resulted in a payroll that has remained flat, which is below the assumed 3.5% annual growth. CalSTRS continues to monitor the situation, especially since recent declines in the number of children enrolled in K–12 public schools and projected enrollment declines in the future may result in a need for fewer teachers in California. The reduction could impact the number of active teachers who participate in the Defined Benefit Program in the future and ultimately the growth in the payroll.

Revised projected funding levels

The following chart compares projected funding levels between the June 30, 2020, actuarial valuation and the June 30, 2021, actuarial valuation presented to the board in May 2022. As displayed, funding levels are now projected to be significantly higher than anticipated a year ago in the June 30, 2020, actuarial valuation. Full funding is now expected to occur in 2041, five years ahead of schedule, reflecting the positive impact of last year’s events. This assumes the fund will meet the 7.0% investment return and that payroll will grow at 3.5% annually through 2046.

Projected funded status



Review of actuarial assumptions

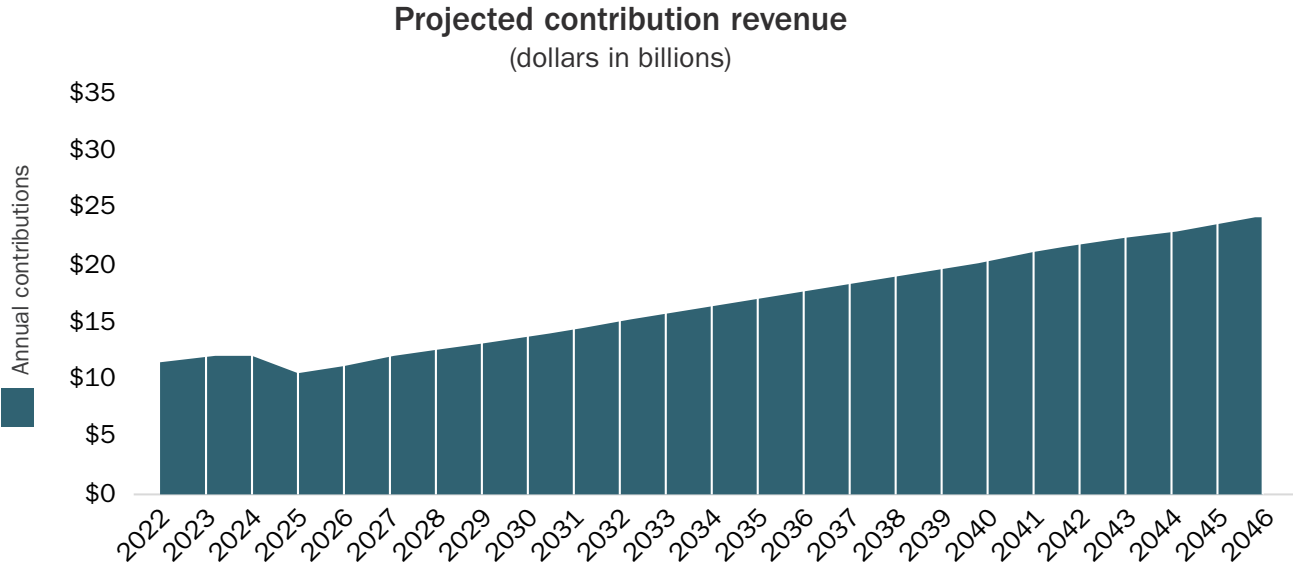
In January 2020, CalSTRS completed a review of the actuarial assumptions used in preparing the actuarial valuation of the system. When performing actuarial valuations, actuaries rely on the use of various demographic and economic assumptions. It is important to monitor these assumptions to ensure they are reasonable, reflect the actual experience of the system and are appropriate for assessing funding levels and determining contribution levels needed to achieve full funding.

CalSTRS has adopted a policy to perform a review of actuarial assumptions every four years. The next formal review is expected to be presented to the board in January 2024. Even though actuarial assumptions are formally reviewed every four years, CalSTRS constantly monitors the appropriateness of the actuarial assumptions adopted by the board. If any events or changes warrant an adjustment to actuarial assumptions, the issue would be brought to the board for discussion, even if it meant such discussion would occur ahead of the normal four-year review cycle.

Revenues

Contributions and investment income

Primary revenue sources are member, employer and state contributions and investment income. Over the last 30 years, about 64% of revenues have come from investment income. Going forward, CalSTRS anticipates about 60% of future revenues will come from investment returns with the remainder coming from a combination of member, employer and state contributions. These percentages can change over time due to fluctuations in net investment income, adjustments to required member, employer and state contribution rates under the CalSTRS Funding Plan and impacts of other legislation. Contribution amounts are determined as a percentage of members' creditable compensation. Investment returns are dependent upon global market conditions. The current revenue estimates assume the fund will earn its assumed actuarial rate of return of 7.0% each year into the future, the payroll will increase each year at a rate of 3.5% and additional contribution rate adjustments are made pursuant to the funding plan.¹



1. Additional information regarding contribution rates is provided in Appendix 3.

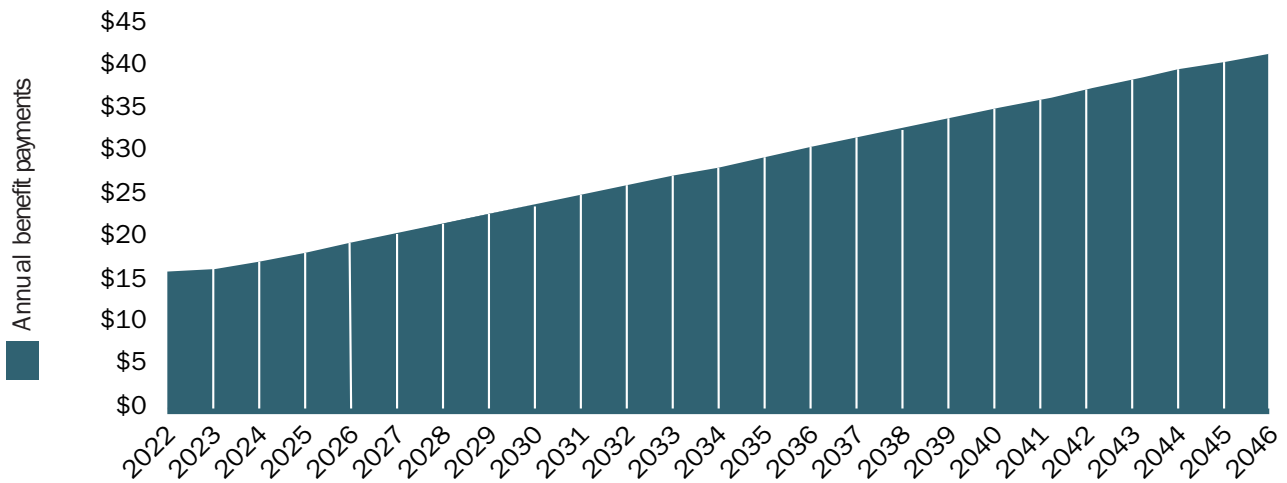
Expenses

Member benefit payments

Expenses are primarily composed of pension benefit payments and on average represent the majority of CalSTRS' total expenditures. Changes in long-term projected benefit payments are largely driven by changes in various economic and demographic assumptions such as service

retirements, mortality, creditable compensation, disability and inflation. Member benefit payments are estimated to increase at an average rate of approximately 4.1% annually through 2046. As with any mature pension system, to the extent contributions are less than current and future benefit payments, investment income is leveraged to bridge the gap.

Projected member benefit payments
(dollars in billions)



Budget overview

Budget in brief

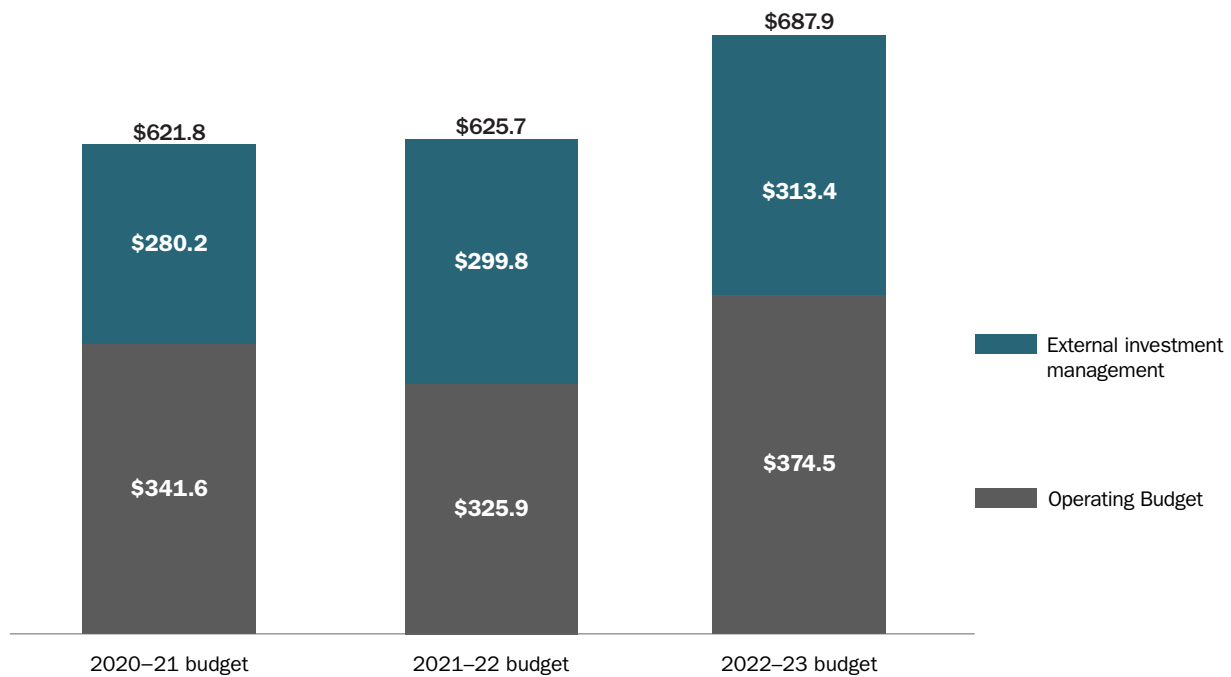
CalSTRS' 2022–25 Strategic Plan lays out a set of goals and measurable objectives that demonstrate how our mission and vision will advance through 2025. This task is a long-term endeavor, requiring comprehensive and sustainable solutions for today and many years to come. The CalSTRS 2022–23 Annual Budget incorporates these goals and objectives by developing a detailed operational and financial plan to deliver on annual and long-term objectives and targets.



The 2022–23 Annual Budget fosters enterprisewide operational support and management activities to facilitate ongoing business operations safely and securely. This includes funding for property management services, various technology capabilities and 10 permanently authorized positions to address workload management throughout the organization. Moreover, this budget includes funding for the second year of scheduled expenditures for the continued implementation of the investment management plan, in support of the CalSTRS Collaborative Model as we transition more assets to internal management. Additional changes include state-mandated adjustments to employee compensation and changes to other operational expenditures.

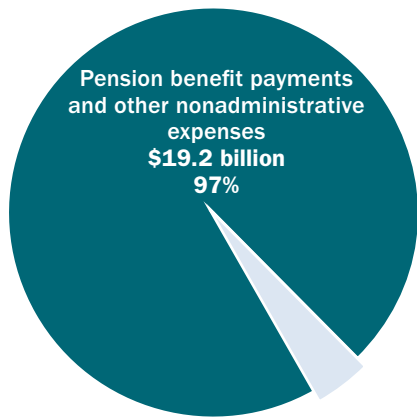
CalSTRS 2022–23 total budget is \$687.9 million and includes 1,293 authorized positions. Of this amount, \$313.4 million is for external investment management,¹ and \$374.5 million represents CalSTRS’ Operating Budget. This reflects a total net Operating Budget increase of \$48.6 million, or 15%, relative to the 2021–22 Operating Budget.

CalSTRS 2020–21, 2021–22 and 2022–23 total budget
(dollars in millions)



¹ External investment management fees are largely correlated to the value of assets under management and investment returns and are continuously appropriated. Continuous appropriations represent statutory expenditure authorization that exists from year to year without further legislative or board action.

CalSTRS 2022-23 total budgeted expense breakout

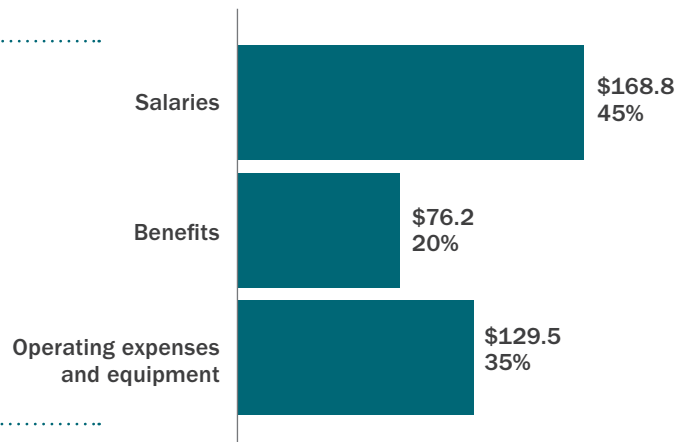
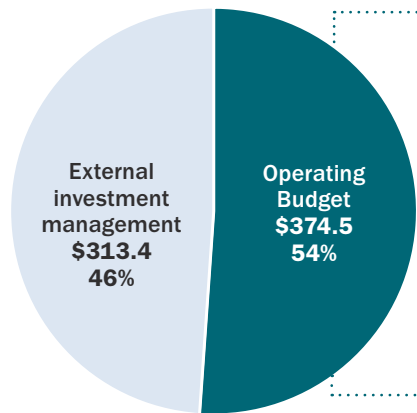


Total expenses are primarily composed of pension benefit payments and the administrative expenses required to manage CalSTRS' operations.

Administrative expenses account for approximately 3% of CalSTRS' total expenses and represent CalSTRS' total budget.

Administrative expenses
\$687.9 million
3%

CalSTRS total 2022-23 budget (dollars in millions)



The following table provides a summary of CalSTRS' prior year actuals, the 2021–22 and 2022–23 total budget, and highlights the amount change by budget category between fiscal years 2021–22 and 2022–23.

Three-Year Overview¹

(dollars in thousands)

Budget category	Actual 2020–21	Budget 2021–22 ²	Budget 2022–23	Amount change
Operating Budget				
Salaries	\$117,932	\$155,344	\$168,829	\$13,485
Benefits	54,895	70,236	76,177	5,941
Operating expenses and equipment				
General expenses	14,787	29,779	28,673	(1,106)
Consulting and professional services	30,506	38,991	44,468	5,477
Facilities operations	17,422	9,050	33,943	24,893
Central administrative services	12,180	14,856	14,747	(109)
Data processing and storage	7,588	7,658	7,658	–
Total Operating Budget	255,310	325,914	374,495	48,581
External investment management ³	261,398	299,795	313,423	13,628
Total budget	\$516,708	\$625,709	\$687,918	\$62,209
Percent change				9.9%

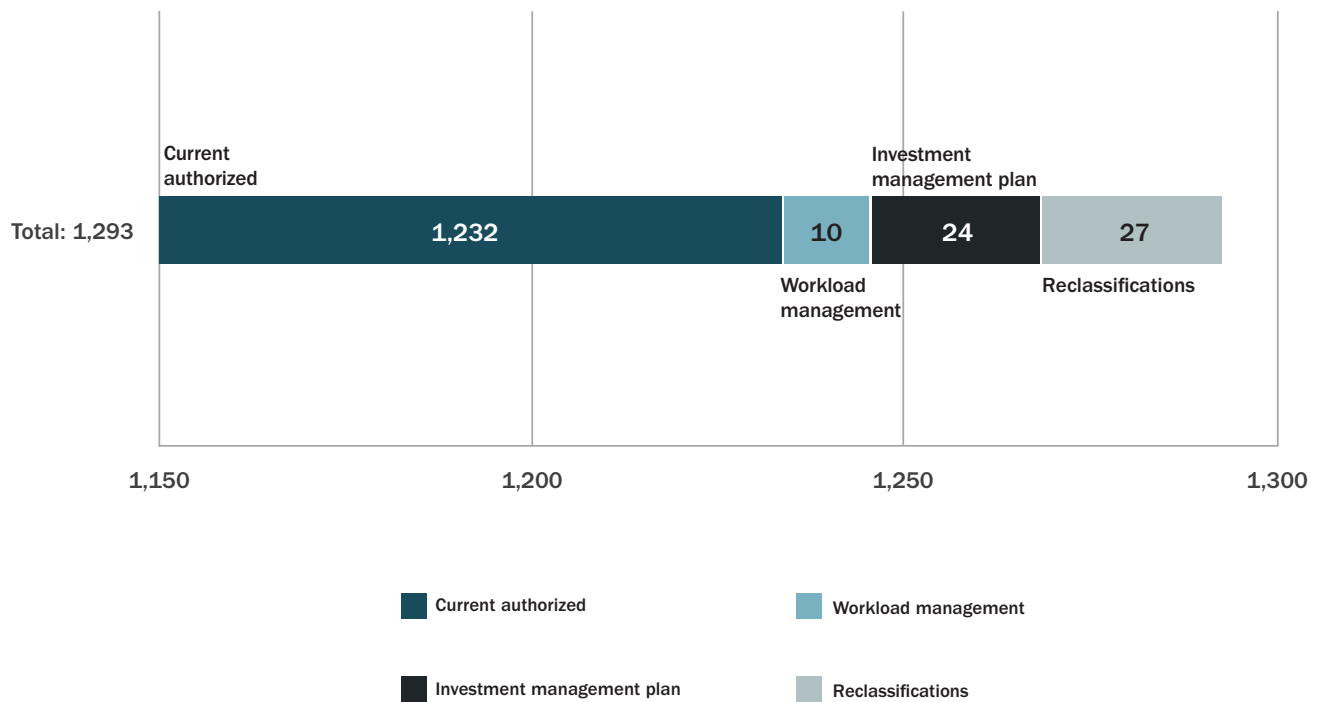
1 Three-year overview by fund is provided in Appendix 4.

2 The 2021–22 board-approved Operating Budget was revised due to mandatory adjustments to statewide administrative expenditures. Additional details regarding these changes are provided in Appendix 6.

3 Consistent with financial reporting practices, external investment management fees exclude securities lending, borrowing costs on investment-related master lines of credit and broker commissions.

The 2022–23 Operating Budget includes 1,293 total authorized positions, reflecting an increase of 61 authorized positions to CalSTRS’ workforce, or 5%, relative to 2021–22. This includes 10 positions to address workload management, 24 positions approved as part of the investment management plan, and reclassification of 27 existing blanket positions.¹ A breakout of authorized positions by branch is provided in the “Branch information” section.

2022–23 authorized positions



¹ CalSTRS workforce also includes blanket positions. Blanket positions provide staffing flexibility for urgent, one-time or limited-duration operational needs. Additional information regarding blanket positions is provided in the “Glossary” section.

2022–23 Operating Budget changes

The 2022–23 Operating Budget is \$374.5 million and includes 1,293 authorized positions. This reflects a net increase of \$48.6 million, or 15%, relative to 2021–22. The overall net budget increase is primarily driven by various operational support and management activities, including funding for property management services, various technology capabilities and 10 permanently authorized positions to address workload management throughout the organization. Additionally, the budget includes adjustment for state mandates, the second year of scheduled expenditures for the continued implementation of the investment management plan, and changes to the 403bComply Program. Additional changes include the reclassification of existing blanket positions to a permanently authorized status, which have no budgetary impact. The following table displays the total net change of \$48.6 million by operational category.

2022–23 Operating Budget changes

(dollars in millions)

Operational category	Amount change
Operational support and management	\$32.4
State mandates	8.8
Investment management plan	7.8
403bComply Program	(0.4)
Total	\$48.6

Operational support and management: \$32.4 million

The 2022–23 Operating Budget includes an increase of \$32.4 million for operational support and management activities to maintain and safeguard essential business operations, safely and securely. This includes \$30.7 million for service contracts related to property management services for the CalSTRS Headquarters property and various ongoing information technology capabilities. It also includes \$1.7 million to establish funding for 10 permanently authorized positions to address enterprisewide workload management. Workload functions for these positions are primarily associated with information security and safeguarding assets, and enterprisewide operational support activities.

Service contracts: \$30.7 million

Service contracts include an increase of \$30.7 million and are composed of \$24.9 million for property management services for the CalSTRS Headquarters Property, which includes the current headquarters building and the expansion facility, and \$5.8 million for technology capabilities.

Property management services: \$24.9 million

The 2022–23 Operating Budget includes \$24.9 million for property management services associated with the Jones Lang LaSalle Americas Inc. (JLL) contract amendment, approved by the Teachers' Retirement Board in June 2021.¹ Property management services under the amended contract cover the management, operation, maintenance and capital improvements for the CalSTRS Headquarters Property.

The headquarters property consists of CalSTRS' current headquarters facility and an additional 266,500 square feet associated with the Headquarters Expansion Project, for a total of 675,500 square feet of office space.

Of the \$24.9 million, \$11.4 million is for permanent ongoing management, operation, maintenance, and capital improvement costs for CalSTRS' headquarters, and upon completion, the expansion facility. The remaining \$13.5 million represents one-time costs for third party tenant improvements and decommissioning infrastructure on future tenant floors in the current headquarters facility.

Technology capabilities: \$5.8 million

The need for secure, effective and adaptable technology and infrastructure platforms is fundamental to delivering services to CalSTRS members, their beneficiaries and employers. Consistent with recognizing the strategic importance of maintaining robust information technology systems to ensure safe and secure

operations and service delivery while maximizing operational efficiency through the successful and timely adaptation of rapidly changing technology trends, the 2022–23 Operating Budget includes \$5.8 million to fund various ongoing enhanced information technology capabilities. Supporting our technology and infrastructure platforms is a critical component of our business and essential to delivering quality services to our members, employers and stakeholders.

Over the past few years, CalSTRS has experienced a significant increase in technology needs, primarily driven by the strategic importance of technology to our organization and enterprisewide growth, coupled with the transition to a longer-term blended work environment resulting from the COVID-19 pandemic. As a result, CalSTRS requires more robust and agile IT tools to ensure safe and secure continuity of business operations and services. Specifically, this funding will cover ongoing enterprisewide IT hardware and software renewals and maintenance costs, provide tools to continue to strengthen our overall information security posture, as well as provide IT consulting services to support our cloud-based solutions and support quality assurance functionality. Without access to services and tools such as software updates, vendor support and maintenance services, CalSTRS' susceptibility to security risks, system compatibility issues and untimely resolution of system issues increases, which can diminish business capabilities and the quality of services provided to our members, employers and stakeholders.

Workload management: \$1.7 million, 10 positions

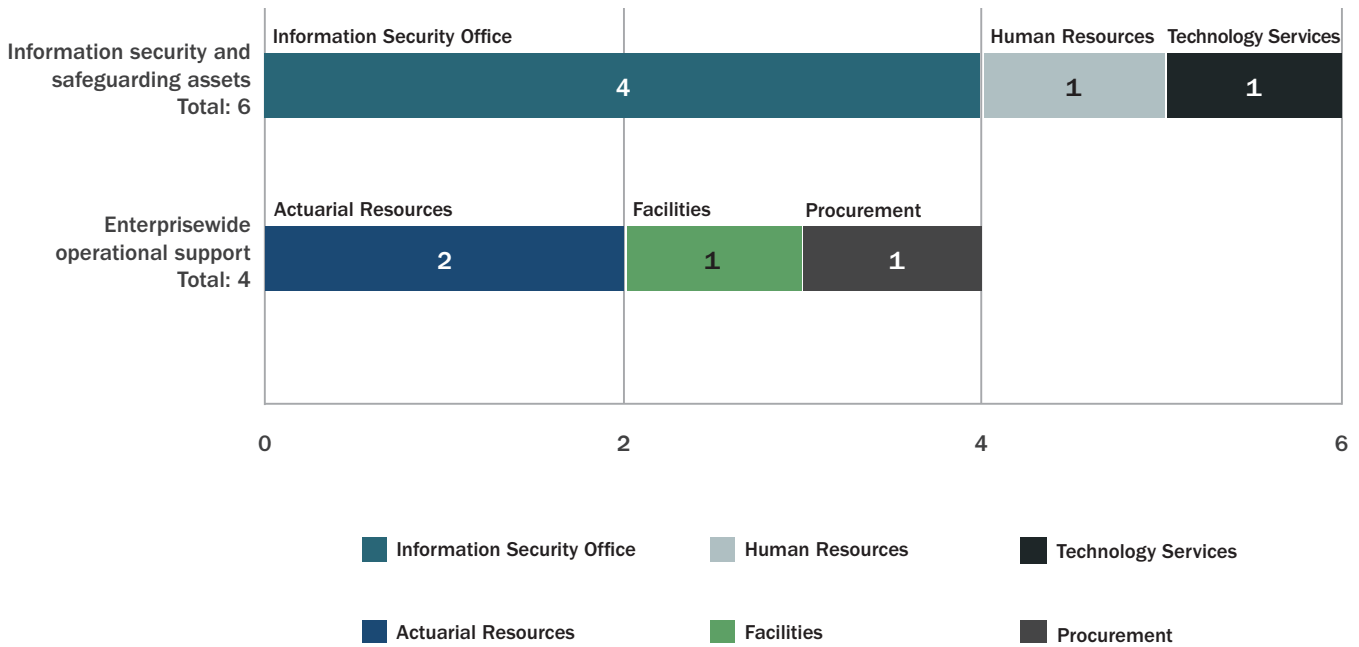
As underscored with CalSTRS' ongoing priorities to securely transform business and service delivery models to maximize operational efficiency, the 2022–23 Operating Budget includes \$1.7 million to establish funding for 10 permanently authorized positions.

1. Additional information is provided in the June 2021 Teachers' Retirement Board Item 13d-Contracts Requiring Board Approval.

Workload functions for these positions are primarily associated with information security, safeguarding assets and enterprisewide operational support activities. These positions will maintain and enhance information security,

augment business resilience capabilities, advance business agility, and streamline processes and operational oversight. The following chart displays the 10 authorized positions by function and business area.

Authorized positions by function and business area



**Information security and safeguarding assets:
\$900,000, 6 positions**

CalSTRS strives to proactively secure electronic data and systems, detect threats and remediate identified risks to strengthen our information security posture. These six positions will strengthen CalSTRS' information security and data management efforts and effectively safeguard information assets by performing the following tasks:

- Prevent, monitor, detect and identify unforeseen information security risks, fraud and emerging cyber fraud security threats and impacts.
- Promote information security policies, information security design and technical documentation.
- Conduct information security audits, identify risk and recommend risk mitigation strategies.
- Provide cross-functional administrative support for the Technology Services Branch.

Inadequate information security risk management could have a significant impact on the delivery of over \$16 billion of member benefits annually, and the CalSTRS Investment Portfolio, valued at \$308.6 billion as of June 30, 2021. In addition, without proper resourcing for information security, risk of a data breach and fraud is intensified, which could have unequivocal financial and reputational impacts to the organization. The data amassed from major data breaches typically includes personally identifiable information, email addresses, user IDs, passwords, personal identification numbers and artifacts intended to provide an additional layer of authentication. These positions will mitigate increased risk exposure resulting from a rapidly changing technology environment, maintain compliance with new and changing information security standards, combat a rising number of cyber threats with increasing levels of sophistication, and prevent security breaches.

**Enterprisewide operational support:
\$800,000, 4 positions**

As CalSTRS continues to grow, it is imperative to the success of the organization to sustain a robust and progressive workforce. Consistent with this vision, CalSTRS realizes the importance of ensuring the system is adequately staffed to provide enterprisewide operational support to enhance business services, achieve optimal operating efficiency and adhere to quality assurance efforts. These four positions will assist the organization with achieving these objectives by performing the following tasks:

- Design, lead and conduct asset and liability management studies.
- Review and assist in preparation of member data and other information for actuarial valuations and other actuarial studies, analysis and projects.
- Design, lead and complete the most difficult actuarial studies and actuarial cost analysis related to CalSTRS Defined Benefit, Defined Benefit Supplement and Cash Balance Benefit programs.
- Streamline procurement business processes and ensure procurement activities comply with laws, rules, regulations and policies.
- Provide daily operational oversight of electronic content management services.

Expansion of operational support functions serve as a bridge to address existing workload demands and requirements that have advanced in scope, size and complexity, which are correlated with the overall growth and strategic direction of the organization. This includes dedicated support to procure contract services and software; enhance business process documentation; process mission critical purchasing to meet service level agreements; plan, organize and direct the operational activities for the imaging

system to continuously improve electronic content management; and provide a multitude of actuarial functions, including responding to requests from the board and other internal and external stakeholders. These activities coupled with business process improvements are driving the need for additional resources to achieve optimal operating efficiency.

State mandates: \$8.8 million

State mandates include a net increase of \$8.8 million for fiscal year 2022–23. State mandates are largely associated with nondiscretionary costs, including augmentations to wage escalation for existing personnel and the annual pro rata assessment issued by the Department of Finance.

Wage escalation: \$8.9 million

Wage escalation is composed of employee compensation and benefits for existing staff and accounts for the largest increase associated with nondiscretionary costs in the amount of \$8.9 million. Salaries account for \$5.7 million, or 64%, and benefits account for \$3.2 million, or 36%, of the total increase. This is primarily due to general salary increases of 2.5%, merit salary adjustments of 5%, and the associated impact of these changes on total benefits.

Pro rata assessment: (\$110,000)

CalSTRS is required by the Department of Finance to contribute on a pro rata basis for the cost of providing central administrative services to CalSTRS. The pro rata assessment represents General Fund recoveries of shared statewide general administrative costs. The pro rata process apportions the costs of providing central administrative services to all state departments that benefit from shared services,

such as centralized state payroll processing for CalSTRS employees. The apportioned amount is further allocated to each state department's funding sources based on the percentage of total expenditures in each fund. Annual updates to CalSTRS' pro rata share are based on the most current assessment provided by the Department of Finance.

For 2022–23, the annual pro rata assessment will decrease by \$110 thousand, based on the current assessment provided by the Department of Finance. The overall decrease is largely due to lower than planned shared service costs across various state agencies.

Investment management plan: \$7.8 million

As part of the 2021–22 Operating Budget, the board approved an investment management plan for \$40.9 million to establish 109 authorized positions and funding for external investment audit services, dispersed across fiscal years 2021–22 through 2025–26.¹

The investment management plan is a five-year resource planning strategy to continue successful implementation efforts and growth of the CalSTRS Collaborative Model, as we transition more assets to internal management and manage growth of assets under management. The primary objectives of the Collaborative Model are to reduce costs, control portfolio risk, increase investment returns and leverage our external partnerships to achieve similar benefits—all for the benefit of California educators and their beneficiaries.

The following table provides the five-year forecast for the plan and represents the scheduled funding and resources that will be added to CalSTRS baseline Operating Budget in each fiscal year.

¹ Additional details regarding the investment management plan are provided in the November 2020, Teachers' Retirement Board Item 2 Approval of the multi-year internal investment management plan and Proposed 2021–22 Operating Budget.

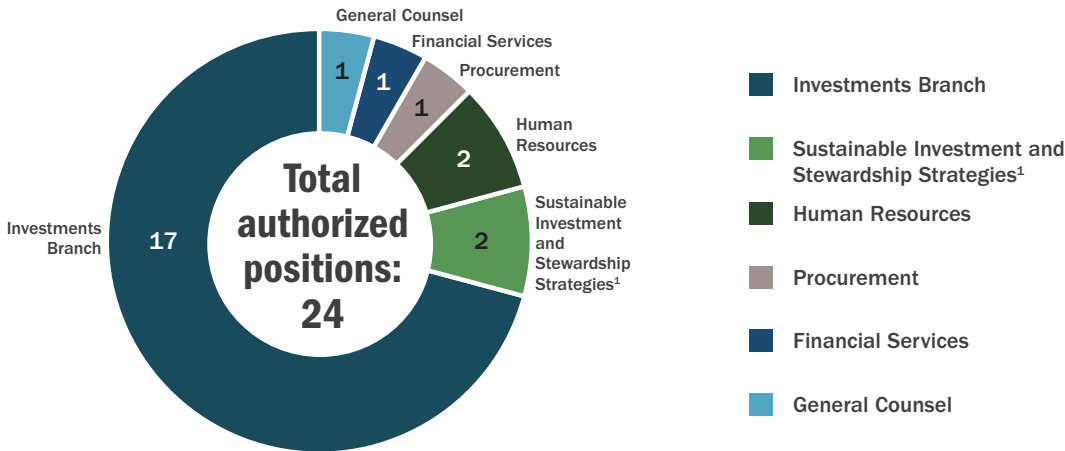
Five-year funding and resource forecast

(dollars in millions)

	2021-22	2022-23	2023-24	2024-25	2025-26	Total
Budget	\$12.3	\$7.8	\$9.9	\$6.5	\$4.4	\$40.9
Authorized positions	30	24	21	19	15	109

Of the total \$40.9 million in funding for the five-year plan, the 2022-23 Operating Budget includes the second year of scheduled funding in the amount of \$7.8 million. This includes \$7.7 million for 24 authorized positions dispersed across the organization, and \$60,000 for external investment audit services. The following chart displays the 2022-23 authorized positions by business area.

2022-23 authorized positions by business area



403bComply Program: (\$415,000)

The 2022-23 Operating Budget includes a reduction of \$415 thousand for the 403bComply contract with TCG Services, the program’s third party administrator. The 403bComply service offers 403(b) plan implementation guidance, ongoing plan compliance and maintenance for employers offering a 403(b) defined contribution product. Effective June 1, 2021, as a result of overall changes in the management of the program, third party administrator services and the associated cost for those services are no longer required.

1. Sustainable Investment and Stewardship Strategies is a division in the Investments Branch.

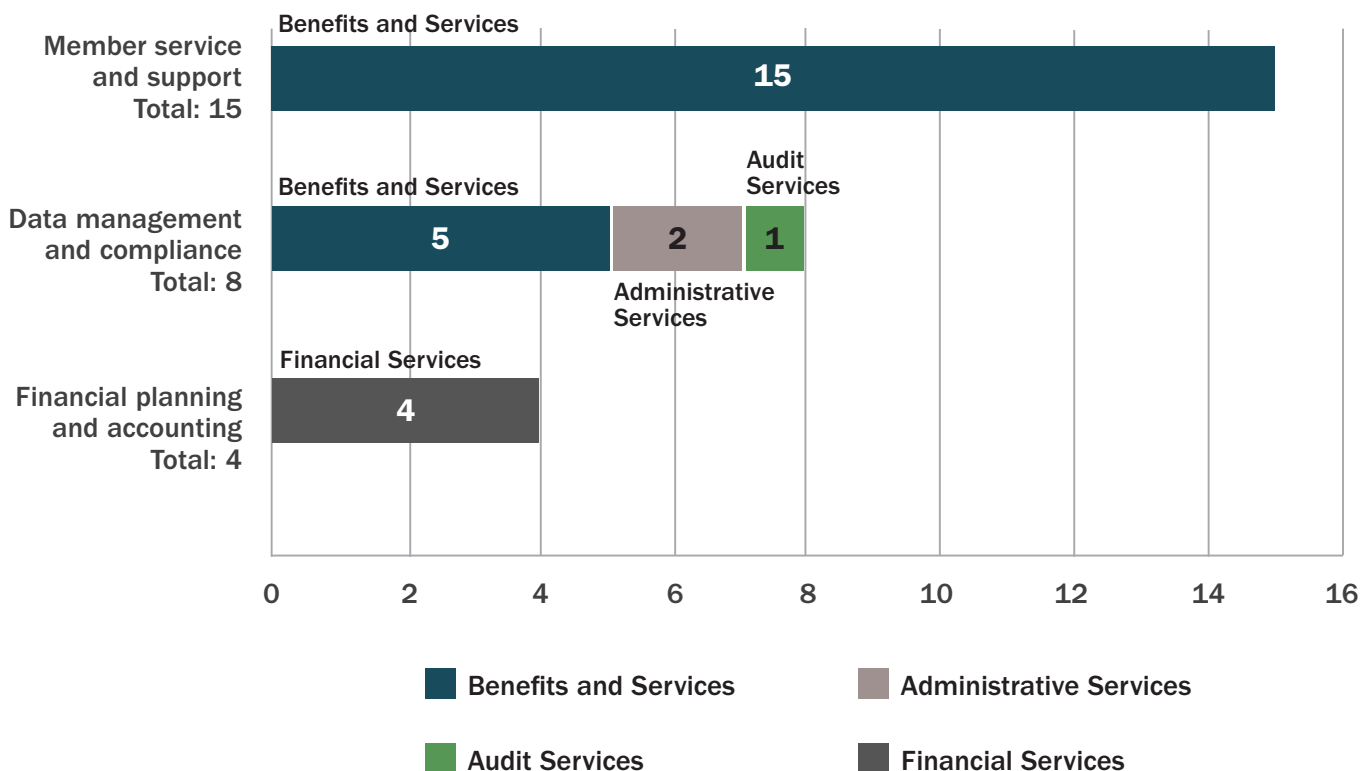
Reclassification of position authority

The Department of Finance issued **Budget Letter BL 21-18**, providing guidance on reclassifying full-time tenured staff performing permanent ongoing work in blanket classifications, to a permanent authorized status within an existing appropriation authority. Application of this adjustment serves as an administrative tool, providing more transparency and operational flexibility to departments in managing the size and classifications of its workforce. In alignment with the merits of BL 21-18, to increase overall budget accountability, transparency and accuracy, CalSTRS conducted an enterprisewide analysis, to determine if there were full-time tenured staff working in blanket classifications under existing appropriation authority, that require reclassification to a permanent authorized

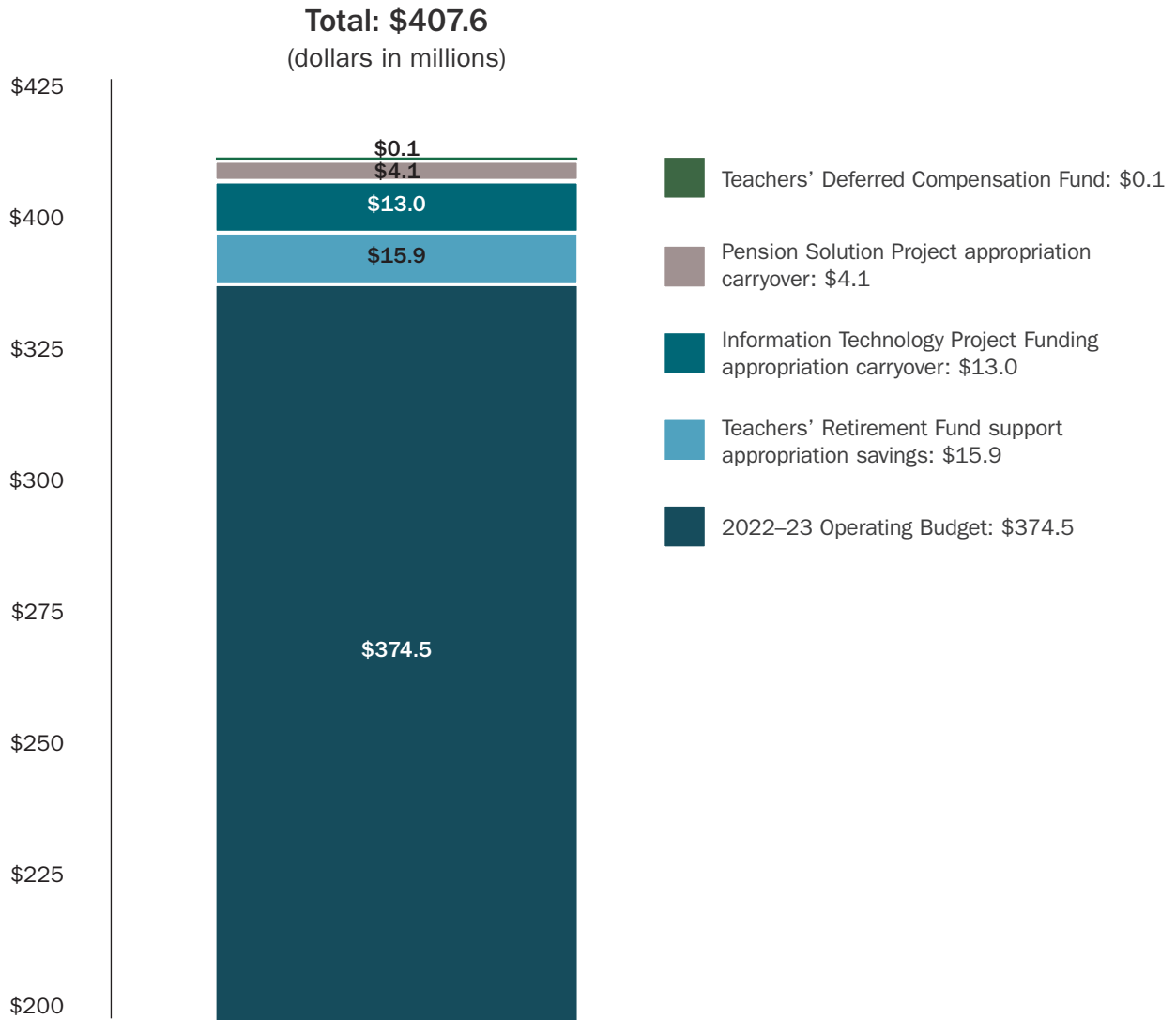
status. Based on this analysis, staff identified 27 existing positions performing permanent ongoing work that require position reclassification. In general, these positions were originally created to assist with work that was anticipated to be more temporary in nature. Over time, the scope of these positions has evolved to permanent and ongoing work, largely driven by the overall growth and complexity of the CalSTRS organization.

Administrative support functions for these positions are primarily associated with member service and support, data management and compliance, and financial planning and accounting, which are critical to facilitating effective and efficient business operations for the CalSTRS organization. The following chart provides a breakout of the 27 positions by function and business area.

Reclassifications by function and business area



2022–23 total estimated spending authority



The Operating Budget provides the authority to expend up to \$374.5 million in fiscal year 2022–23. In addition, CalSTRS has additional spending authority, resulting from prior board approvals, available for expenditure in fiscal year 2022–23. As a result, CalSTRS can end the year with total expenditures greater than the 2022–23 Operating Budget. There are four primary sources of additional spending authority. These include the TRF support appropriation savings, ITPF appropriation

carryover, Pension Solution Project appropriation carryover, and additional budget authority for the TDCF.

As summarized in the chart above, total estimated spending authority above the 2022–23 Operating Budget is currently projected at \$33.1 million. Based on these estimates, CalSTRS can expend up to \$407.6 million in fiscal year 2022–23. Additional detail is provided on the following page.

Teachers' Retirement Fund support appropriation savings: \$15.9 million

Pursuant to the **Teachers' Retirement Board Governance Manual**, if CalSTRS ends the year with savings in the Teachers' Retirement Fund support appropriation, these savings are available for expenditure for two years after the initial appropriation, upon board approval, and are limited to 3% of that appropriation. These savings would be used for the purpose of meeting unanticipated system costs and promoting better service to the system's membership. Upon board approval, \$8.0 million is available to encumber by June 30, 2023, and through June 30, 2025, to liquidate, and \$7.9 million is available to encumber by June 30, 2024, and through June 30, 2026, to liquidate.

Information Technology Project Funding appropriation carryover: \$13.0 million

CalSTRS baseline Operating Budget includes an annual Information Technology Project Funding appropriation of \$18.5 million for enterprisewide projects as authorized by Enterprise Program Investment Council. Pursuant to the annual Budget Act, each year this amount is available to encumber for up to three years and two additional years for liquidation. Funds not encumbered in the initial fiscal year that were appropriated are carried over for up to two fiscal years and can be designated to projects authorized by EPIC. Based on current projections, \$13.0 million is available to encumber by June 30, 2024, and through June 30, 2026, to liquidate. These funds will be utilized as projects are approved by EPIC.

Pension Solution Project appropriation carryover: \$4.1 million

Of the total \$304.8 million total spending authority for the Pension Solution Project, \$4.1 million represents the estimated carryover amount from the 2014–15 through 2020–21 appropriations. This funding is available to encumber by June 30, 2023, and through

June 30, 2025, to liquidate. The encumbrance and liquidation periods for the Pension Solution Project reflect extensions to the original encumbrance and liquidation dates, which were approved as part of the 2020–21 Operating Budget.

Teachers' Deferred Compensation Fund: \$96,400

The Teachers' Deferred Compensation Fund is used to account for ancillary activities associated with deferred compensation plans and programs offered by CalSTRS to enhance the tax-deferred financial options for members and their beneficiaries. Staff monitors the cash revenues received by the fund to ensure it is sufficient to cover expenditures for the program. If sufficient cash revenue is generated to support expansion of the program, the TDCF has additional budget authority of up to 5%, or \$96,400, over the baseline TDCF budget of \$1.9 million, as needed for unanticipated expenditures.

Capital projects

This section provides a summary of capital projects and associated financing. The Capital Projects budget plans for expenses associated with technology, infrastructure and other enterprise projects at CalSTRS. These costs are typically one-time, bounded costs as compared to ongoing administrative costs.

CalSTRS capitalizes operational assets in accordance with Governmental Accounting Standards Board Statements No. 34 and No. 51. Specifically, all land, buildings, improvements, equipment, computer software and other tangible or intangible assets used in operations that have initial useful lives extending beyond one year and have an initial cost basis of \$1 million or greater, are capitalized. Depreciation or amortization is charged to operations using the straight-line method over the estimated useful life of the related asset. For budgetary reporting and planning, all assets, including those with useful lives greater than one year and costing more

than \$1 million are fully expensed in the year purchased. Depending on the type of capital project or asset, funding may be authorized from either continuous or support appropriations.

CalSTRS currently has two major capital projects underway. The first is the Pension Solution Project, with a current project budget of \$304.8 million. The second is the CalSTRS Headquarters Expansion Project, with a project budget of \$318.5 million.¹

Pension Solution Project

The Pension Solution Project is an ongoing effort by CalSTRS to modernize the legacy pension administration system. The project is the largest technology effort in CalSTRS' history and encompasses the implementation

of a new benefits program management system to support program and policy changes, incorporate automated internal controls and improve processing times. It will interface with multiple systems, including our financial and imaging systems, and will provide upgraded secure portals for members and employers. The new system, BenefitConnect, will administer member and beneficiary account information, employer reporting, benefit calculations and case management activities into a single integrated solution. Through this multiyear project, we seek to enhance our ability to respond to customer and business needs; gain long-term operational efficiencies; improve internal controls; and enhance services to more than 980,000 members and their beneficiaries, as well as the school employer community.

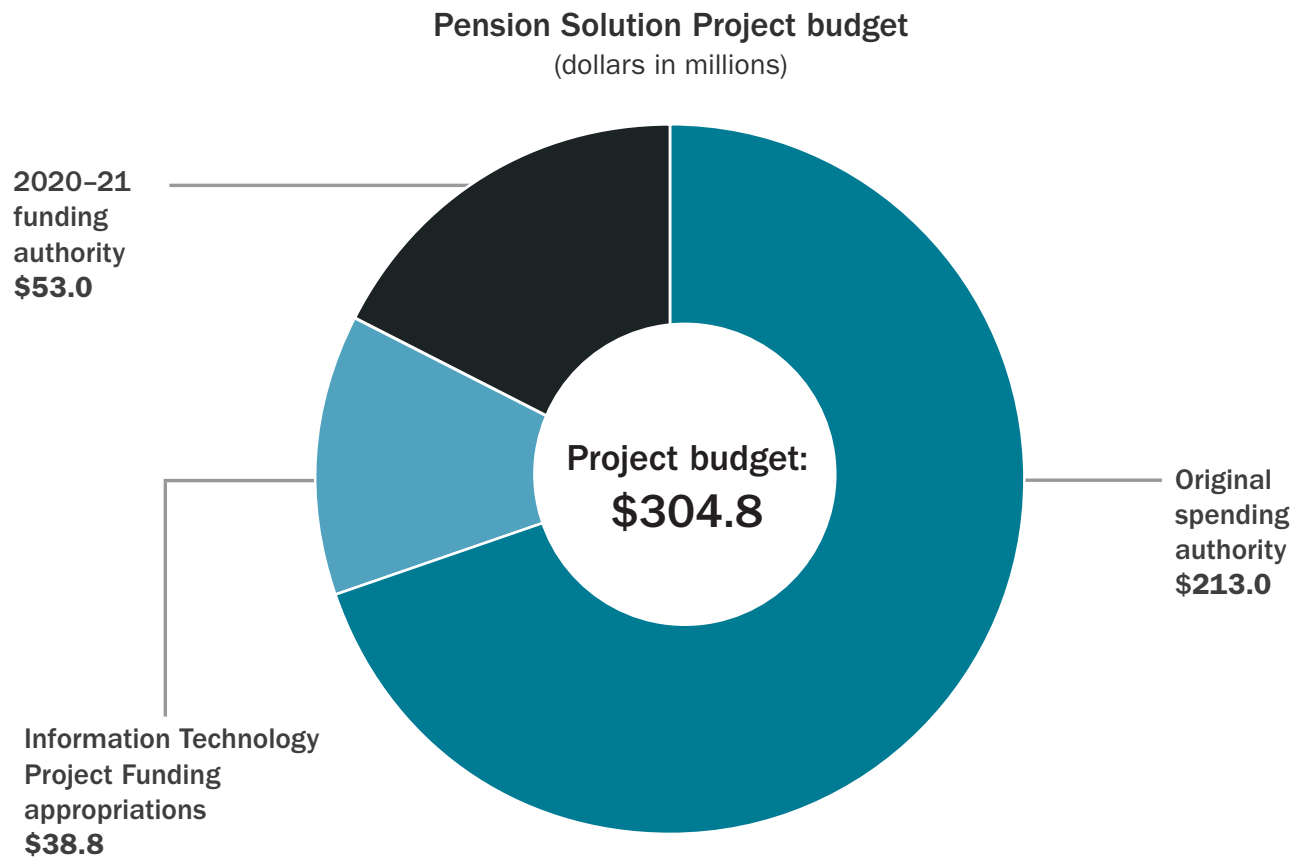
Pension Solution Project objectives



1. Excludes the cost of bond financing.

Pension Solution Project budget: \$304.8 million

In July 2019, the Teachers' Retirement Board approved the revised Pension Solution Project budget of \$304.8 million. Of the total \$304.8 million budget, \$213 million represents the original spending authority approved in fiscal year 2014–15, with funding allotted annually through 2019–20. An additional \$53 million in funding authority was approved for fiscal year 2020–21, and the remaining \$38.8 million is funded from the annual ITPF appropriations. The following chart summarizes the current Pension Solution Project budget by funding source.



The following table summarizes the Pension Solution Project budget and the amounts consumed for each appropriation as of June 30, 2021.

Pension Solution Project budget consumption

(dollars in thousands)

Appropriation	Budgeted amount	Consumed amount	Remaining amount
2014–15 Pension Solution appropriation	\$61,564	\$59,334	\$2,230
2015–16 Pension Solution appropriation	63,099	62,405	694
2016–17 Pension Solution appropriation	37,553	36,036	1,517
2017–18 Pension Solution appropriation	26,982	24,766	2,216
2018–19 Pension Solution appropriation	17,965	17,134	831
2019–20 Pension Solution appropriation	5,837	4,728	1,109
2020–21 Pension Solution appropriation	53,000	2,002	50,998
ITPF appropriation	38,833 ¹	35,848	2,985
Total	\$304,833	\$242,253	\$62,580

Pension Solution Project schedule

The organization continues to progress toward implementing the new pension administration system, however, the project is delayed. CalSTRS is in the process of completing a full-project analysis to review schedule delays and mitigate issues causing or resulting from these delays. The completion of this analysis will result in a revised schedule, including planned implementation activities, an extension to the planned go-live date, and a revised project budget. Upon finalization of these items, they will be presented to the board for approval. Despite the implementation delay, CalSTRS remains committed to delivering a quality pension administration system that meets our goals and the needs of our stakeholders.

1 Funds designated to the Pension Solution Project are from various annual ITPF appropriations as approved by the EPIC.

CalSTRS Headquarters Expansion Project

In fall 2019, CalSTRS began to expand its headquarters located in West Sacramento, California. The expansion will allow the organization to meet the long-term space needs resulting from the projected increase in size and complexity of the system. The new 10-story tower will include 260,000 square feet of additional office space, which will be financed through conduit tax-exempt lease revenue green bonds.

CalSTRS’ long-term employee growth projections forecast an increase of approximately 4.5% annually through the next decade before growth declines to approximately 2.5% per annum. The expanded headquarters space will allow the organization to grow over the long term to meet the needs of our changing business models and growth expectations. The new building is an investment for CalSTRS’ future, one that we expect will meet the organization’s needs for the next 30 years.

CalSTRS Headquarters Expansion Project budget: \$318.5 million

Prior to approving the Headquarters Expansion Project, the Teachers’ Retirement Board reviewed a variety of scenarios to accommodate CalSTRS’ long-term growth strategy, including developing a second structure at the current headquarters

campus, acquiring an existing building or leasing office space in the region. After careful consideration of all options, on November 8, 2018, the board unanimously approved the development of a second structure using tax-exempt lease revenue green bond financing with a total budget not to exceed \$300 million (excluding the cost of financing) for construction of the building. The \$300 million budget includes \$8 million, which was approved as a part of the fiscal year 2016–17 Operating Budget for preconstruction activities, including design, and to provide cost estimates for various facility alternatives. The remaining \$292 million will be used for the construction and development of the building and was included as a one-time augmentation of budgetary authority in the fiscal year 2018–19 Operating Budget.¹

Due to impacts of extended project schedules, permitting delays, cost escalations associated with supply chain shortages and safety measures associated with the prolonged Covid-19 pandemic, the board approved additional funding not to exceed \$18.5 million in January 2022, utilizing tax-exempt lease revenue green bonds to complete the Headquarters Expansion Project. This brings the current project budget to \$318.5 million.

As of March 31, 2022, construction is approximately 59% complete. The building is estimated to be completed in spring 2023.

Headquarters Expansion Project timeline



¹ From a budgetary basis, the total cost of construction was recognized in fiscal years 2016–17 and 2018–19, when the funds were encumbered.

Bond financing

Of the \$318.5 million project budget, \$300 million is financed with Series 2019 tax-exempt lease revenue green bonds, which state and local governments commonly use to finance capital improvements, such as infrastructure. Using tax-exempt lease revenue green bond financing to fund the Headquarters Expansion Project provided the most economic and long-term value to finance the cost of the building. This alternative offers a rationale for spreading the infrastructure costs over time, as opposed to a significant and immediate one-time cash outlay of \$300 million directly from the fund. The total borrowing cost was finalized at 3.25%, leaving CalSTRS' assets invested in diversified markets at the current expected actuarial rate of return of 7.0%, deriving a higher expected return than the cost of bond issuance over the span of 30 years.

The additional \$18.5 million was approved by the board to be financed using tax-exempt lease revenue green bonds, which have not yet been issued. Based on the revised schedule to complete the Headquarters Expansion Project, the project team determined the additional funding is not needed until the last few months of the project, which is expected to be around December 2022. As a result, it is anticipated that bonds for the additional \$18.5 million will be issued after substantial completion of the Headquarters Expansion Project, which will require interim funding from the trust until the bonds are issued. Once bond proceeds are obtained, the trust will be reimbursed, and future debt service payments will be made in accordance with the terms of the new bonds.

Green bonds

CalSTRS' vision and guiding beliefs support advancing sustainability. As such, the headquarters expansion is being designed to support sustainable green building practices, including green technologies, sustainable construction, energy conservation and whole-building integrated energy efficiency measures as well as employee wellness goals. These efforts qualified the tax-exempt lease revenue bonds to be classified as green bonds, which identify to investors that the bond proceeds will be used specifically for sustainable projects that will have a positive impact on the environment. CalSTRS received the 2020 Green Project Bond of the Year award from Environmental Finance for the Series 2019 bonds.

Credit rating agencies

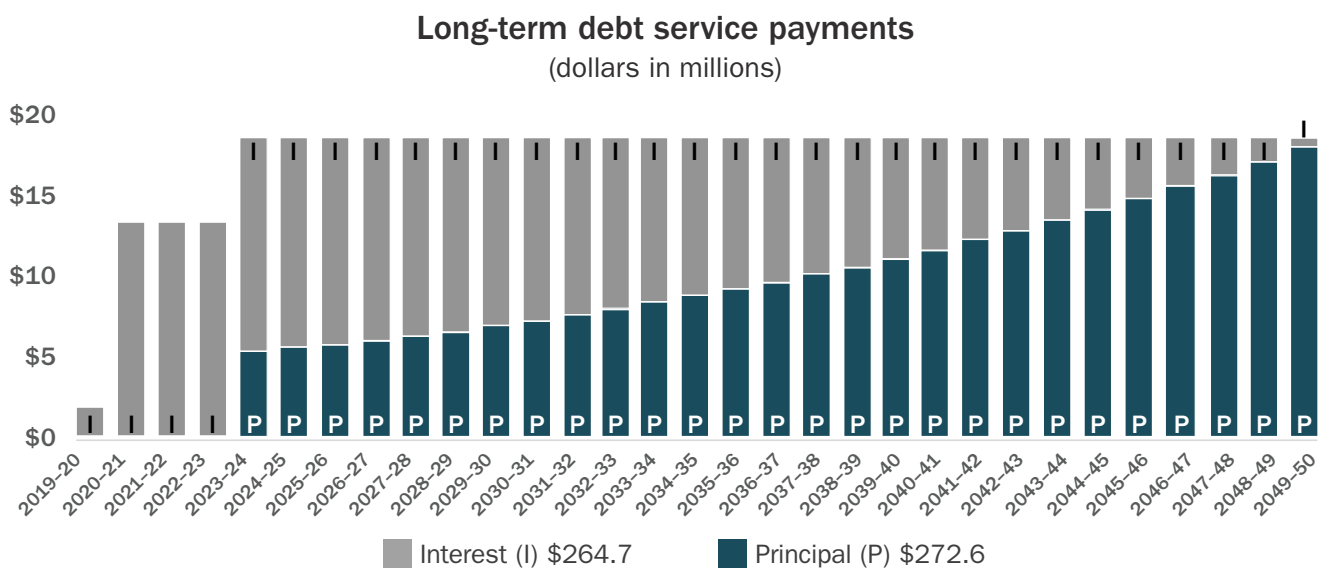
Credit rating is a critical component of assessing an organization's fiscal health. Rating agencies view sound fiscal health favorably, thus improving an organization's agency rating and its ability to obtain low-cost financing for important projects. CalSTRS received the following bond ratings at the time the Series 2019 bonds were issued. The bonds are subject to annual rating assessments. Fitch, Moody's and S&P reaffirmed the original bond ratings during calendar year 2021, which are noted below.

- **Fitch Ratings: AA**
- **Moody's Investors Service: A1**
- **S&P Global Ratings: A+**

These ratings demonstrate that CalSTRS' prudent financial management and fiscal strength are viewed most favorably by credit agencies.

Long-term debt obligations

In December 2019, the California Infrastructure and Economic Development Bank, a conduit debt issuer, issued \$340.6 million in tax-exempt lease revenue bonds on behalf of CalSTRS, of which \$272.6 million represents the par value and \$68.0 million for the original issue premium. The bond proceeds will be used to fund the construction of the CalSTRS Headquarters Expansion Project and pay the cost of bond issuance and capitalized interest¹ during the construction period. Principal and interest payments will be paid over 30 years. The first 2.5 years will consist of capitalized interest payments while the building is being constructed. Upon completion of the building, the annual principal and interest debt service payments will be made through fiscal year 2049–50. The amortization schedule for the Series 2019 Bonds is provided on the following diagram.² Additional information regarding debt service payments is provided in the “Financial summaries” section.



Impact of capital expenditures on the Operating Budget

While the annual budget represents a single year of planned expenditures, the major initiatives funded are generally longer term in nature and have economic impacts extending beyond the upcoming budget year. On that basis, CalSTRS evaluates the impact of current capital investments from a multiyear perspective. These expenditures encompass permanent ongoing costs associated with prior year capital investments once assets are fully functional. Estimated operating costs associated with capital investments are evaluated each year during the annual budget cycle. During the budget planning cycle, anticipated ongoing expenditures for an asset are incorporated into the budget. These expenditures include, but are not limited to, labor, contracts and services, software and hardware maintenance, and other ancillary costs associated with maintaining the asset as an ongoing operational cost. Planning for the downstream impacts of capital projects on the Operating Budget is a critical component of business planning and ensuring the system is adequately resourced for effective long-term financial and operations management.

- 1 A portion of the proceeds from a bond issue that is set aside to pay interest on the debt for the period from when the bonds are issued to when construction is expected to be completed.
- 2 An amortization schedule for the additional \$18.5 million will be provided after the new bonds are issued and will be included as part of the 2023–24 Annual Budget Report.

Financial summaries

Overview of funds

CalSTRS administers a hybrid retirement system consisting of a defined benefit plan, two defined contribution plans, a postemployment benefit plan and a fund used to account for ancillary activities associated with the deferred compensation plans and programs. The Teachers' Retirement Law (Education Code section 22000 et seq.), as enacted and amended by the California Legislature and the Governor, established these plans and CalSTRS as the administrator. The terms of these plans may be amended through legislation.

CalSTRS administers funds that are both annually and continuously appropriated. In general, annual appropriations represent expenditure authorization obtained each year, the majority of which require approval by the board and the Legislature. Continuous appropriations represent constitutional or statutory expenditure authorization which exists from year to year without further legislative or board approval. The Teachers' Retirement Board maintains oversight and control over continuously appropriated funds through internal budget controls.¹

¹ Additional information regarding sources of funding is provided in the "Budget development" section.

The table below illustrates the relationship between the funds and the various programs offered by CalSTRS. Additionally, it provides the funding source used to administer each fund.

Fund to program relationship

Fund	Associated programs
Teachers' Retirement Fund <i>Annual and Continuous</i>	<ul style="list-style-type: none"> • Defined Benefit • Defined Benefit Supplement • Cash Balance Benefit • Supplemental Benefit Maintenance Account (purchasing power protection program)
Teachers' Replacement Benefits Program Fund <i>Continuous</i>	<ul style="list-style-type: none"> • Replacement Benefits
CalSTRS Pension2 Personal Wealth Plan <i>Continuous</i>	<ul style="list-style-type: none"> • Pension2 403(b) and Roth 403(b) • Pension2 457(b) and Roth 457(b)
Teachers' Deferred Compensation Fund <i>Continuous</i>	<ul style="list-style-type: none"> • 403bCompare • 403bComply
Teachers' Health Benefits Fund <i>Continuous</i>	<ul style="list-style-type: none"> • Medicare Premium Payment

The table below illustrates the revenue and expense categories for each fund that CalSTRS administers.

Relationship of revenues and expenses to funds

Budget category	TRF	TRBF	Pension2	TDCF	THBF
Revenues					
Investment income	✓		✓	✓	✓
Employer contributions	✓	✓	✓		✓
Member contributions	✓		✓		
State contributions	✓				
Other income	✓		✓	✓	
Expenses					
Pension benefit payments	✓	✓			
External investment management	✓				
Administrative expenditures	✓			✓	✓
Contribution refunds	✓		✓		
Other benefit payments	✓		✓		✓
Other expenditures	✓		✓		
Debt service payments	✓				

Financial highlights

In accordance with the California Constitution, Article 16, Section 17:

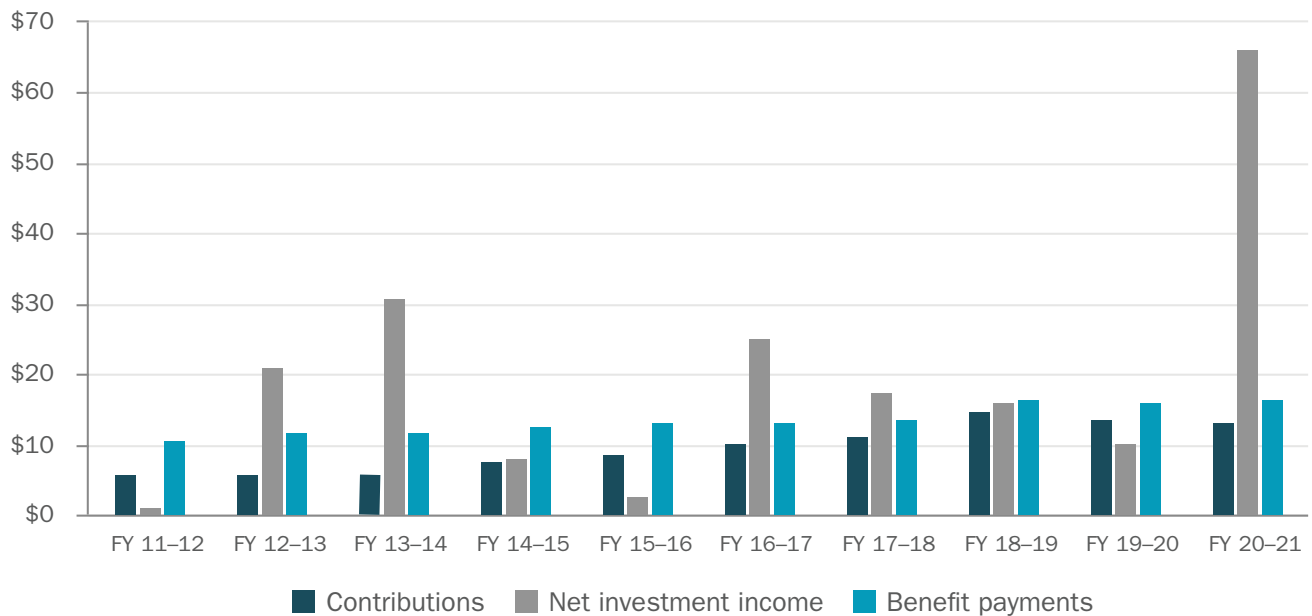
“The assets of a public pension or retirement system are trust funds and shall be held for the exclusive purposes of providing benefits to participants in the pension or retirement system and their beneficiaries and defraying reasonable expenses of administering the system.”

CalSTRS’ revenues and expenses include all financial activities of the organization. CalSTRS’

largest sources of revenue are from investment income and contributions from members, employers and the State of California. The major expense categories are benefit payments, and administrative expenditures associated with maintaining operations, which represents CalSTRS total budget and investment-related expenses.

The following chart provides a 10-year comparison of contributions, net investment income and benefit payments for the State Teachers’ Retirement Plan¹ for the fiscal years ended June 30.

10-year comparison of contributions, net investment income and benefit payments²
(dollars in billions)



1 The State Teachers’ Retirement Plan is composed of the Defined Benefit, Defined Benefit Supplement, Cash Balance Benefit and Replacement Benefits programs.

2 CalSTRS recognized one-time, supplemental contribution payments from the State of California of approximately \$297 million, \$1.1 billion, and \$2.2 billion in fiscal years 2020–21, 2019–20 and 2018–19, respectively.

The following fund balance summary provides a high-level view of CalSTRS' actual beginning fund balance for all funds and programs, sources of revenue and expenses, and ending fund balance for the 2020–21 fiscal year.

2020–21 fiscal year fund balance: All funds¹

(dollars in thousands)

Beginning fund balance	\$248,840,492
Revenues	
Investment income	67,831,585
Employer contributions	5,786,486
Member contributions	3,977,015
State contributions	3,730,902
Other income	93,008
Total fund revenues	81,418,996
Expenses	
Pension benefit payments	16,415,624
External investment management	261,398
Administrative expenditures	255,310
Contribution refunds	108,162
Other benefit payments	300,361
Other expenditures	191,119
Debt service payment	11,175
Total fund expenses	17,543,149
Ending fund balance	\$312,716,339

Revenues

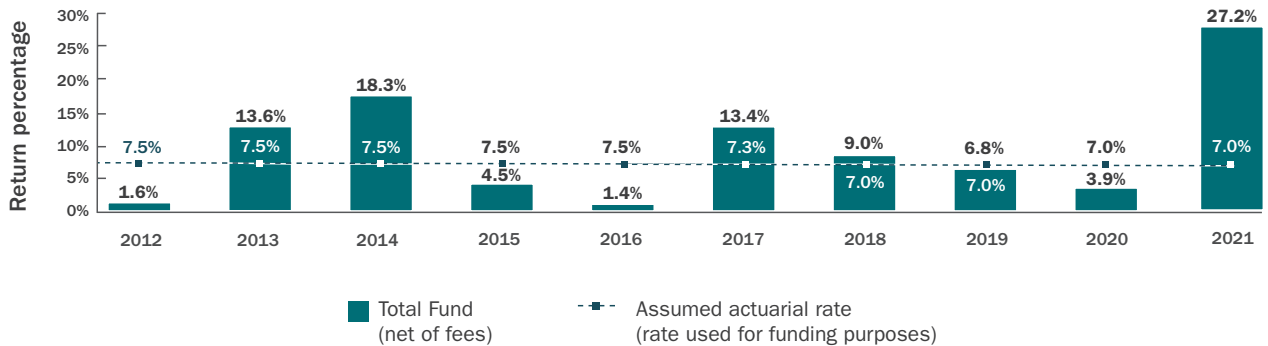
CalSTRS' primary sources of revenue are member, employer and state contributions, and investment income. The majority of the revenues come from the State Teachers' Retirement Plan. Contribution amounts are determined as a percentage rate of members' creditable compensation. Creditable compensation is defined by California Education Code sections 22119.2 and 22119.3 and generally refers to member salary and wages and remuneration in addition to salary. Investment returns are generated by the CalSTRS Investment Portfolio, which earned a time-weighted investment return of 27.2% net-of-fees for the fiscal year ended

June 30, 2021, significantly higher than the 7.0% assumed actuarial rate of return for funding purposes.

Over the last 30 years, investment income funded approximately 64.2% of retirement benefits, with employer, state and member contributions providing 14.4%, 8.7% and 12.7% of the funding, respectively. These percentages can change over time due to fluctuations in net investment income, adjustments to required member, employer and state contribution rates under the CalSTRS Funding Plan pursuant to AB 1469 and impacts of other legislation. Additional details regarding AB 1469 contribution rates are provided in Appendix 3.

¹ Fund balances are prepared on a legal basis, which combines elements of the accrual and the cash basis of accounting. These figures will differ from balances reported on CalSTRS' Annual Comprehensive Financial Report for the fiscal year ended June 30, 2021, which are prepared using Generally Accepted Accounting Principles. Additional detail is provided in the "Policies" section.

10 years of time-weighted annual returns (fiscal years ended June 30)



In addition to revenues received or generated by the State Teachers' Retirement Plan, CalSTRS also receives a mix of investment income, contributions and other income for the Medicare Premium Payment, Pension2 and Teachers' Deferred Compensation Fund programs, as reflected in the "Relationship of revenues and expenses to funds" table earlier in this section.

Expenses

CalSTRS' major expense categories include pension benefit payments, administrative expenditures associated with maintaining operations and investment-related expenses. The largest expense for CalSTRS is retirement benefit payments for the State Teachers' Retirement Plan.¹ In the 2020–21 fiscal year, retirement benefit and supplemental purchasing power benefit payments for the STRP were approximately \$16.6 billion.

Administrative expenditures associated with maintaining operations include direct costs to administer CalSTRS' pension programs, internal investment costs, capital projects and the costs

of operational support functions. Primary drivers for administrative expenditures in the 2020–21 fiscal year were staff salary and benefits,² capital projects, including Pension Solution, various technology capabilities, including additional costs associated with transitioning to a hybrid remote work environment, facilities maintenance and the pro rata assessed by the state's Department of Finance.

External investment management related expenses are continuously appropriated and include fees paid to external investment managers to manage a portion of the CalSTRS Investment Portfolio. External investment management fees are largely correlated to the value of the assets under management and investment returns. Portfolio related expenses are also continuously appropriated and include expenses associated with holdings or activity in the portfolio such as securities lending, interest expense and foreign taxes.

1 Additional details on member benefit payments are provided in Appendix 2.

2 Excludes long-term pension and other postemployment benefit costs accrued for financial reporting purposes for CalSTRS employees in accordance with GASB Statements No. 68 and No. 75.

Three-year overview and projected fund balances

Revenue and expense projections are based on an annual evaluation of key performance indicators and the organization's short-term and long-term goals and initiatives. This includes, but is not limited to, incorporating the current assumed actuarial rate of return for the CalSTRS' Investment Portfolio; legislative impacts to member, employer and state contribution rates; and costs associated with administering the system.

The following table provides a view of actual and projected revenues and expenditures by category for all of CalSTRS' funds (Teachers' Retirement

Fund, Teachers' Replacement Benefits Program Fund, Pension2, Teachers' Deferred Compensation Fund and the Teachers' Health Benefits Fund). Material changes in revenues are primarily driven by projected investment performance and impacts of state legislation on contributions. While material changes in expenditures can vary by fund, they are largely attributed to rising benefit payments driven by increasing service retirements and projected inflation related adjustments, changes in state mandated expenditures, operational growth and variations in investment-related expenses.

Three-year overview and projected fund balances: All funds^{1,2}

(dollars in thousands)

	Actual 2020–21	Budget 2021–22	Budget 2022–23	Amount change
Beginning fund balance	\$248,840,492	\$312,716,339	\$328,265,192	\$15,548,853
Revenues				
Investment income	67,831,585	19,564,224	22,127,276	2,563,052
Employer contributions	5,786,486	6,331,426	6,971,728	640,302
Member contributions	3,977,015	4,122,418	4,088,469	(33,949)
State contributions	3,730,902	4,279,040	3,718,257	(560,783)
Other income	93,008	93,610	99,281	5,671
Total fund revenues	81,418,996	34,390,718	37,005,011	2,614,293
Expenses				
Pension benefit payments	16,415,624	17,532,428	18,408,623	876,195
External investment management	261,398	299,795	313,423	13,628
Administrative expenditures	255,310	325,914	374,495	48,581
Contribution refunds	108,162	123,327	114,693	(8,634)
Other benefit payments	300,361	331,061	385,561	54,500
Other expenditures	191,119	218,165	236,961	18,796
Debt service payments	11,175	11,175	11,175	-
Total fund expenses	17,543,149	18,841,865	19,844,931	1,003,066
Ending fund balance	\$312,716,339	\$328,265,192	\$345,425,272	\$17,160,080
Percent change				5.2%

1 Fiscal years 2020–21 and 2021–22 include \$297 million and \$584 million in one-time, supplemental contributions from the State of California, respectively.

2 Actual fund balances are prepared on a legal basis, whereby capitalized assets are depreciated. For budgetary purposes, capitalized assets are expensed in the period encumbered.

Teachers' Retirement Fund

The Teachers' Retirement Fund was established by California Education Code section 22400 and is the largest fund CalSTRS administers. It is a multiple-employer, cost-sharing defined benefit plan composed of the Defined Benefit, Defined Benefit Supplement, Cash Balance Benefit, and Supplemental Benefit Maintenance Account. The fund's deposits primarily include member contributions, employer contributions, state contributions and income on investments. The majority of the fund's expenditures are from retirement benefit payments, expenses associated with the CalSTRS Investment Portfolio and the ongoing costs of funding CalSTRS' operations.

Changes in budgeted revenues are primarily associated with projected growth in investment returns and legislative impacts on contribution rates. For the last few years, the state provided CalSTRS with additional contributions above the statutorily required contributions using Proposition 2 revenues to reduce their unfunded actuarial liability and provided additional contributions towards short-term contribution rate relief for employers. The short-term rate relief was provided through temporary reductions to the employer supplemental contribution rate pursuant to special legislation for fiscal years 2019–20, 2020–21, 2021–22.¹ For fiscal year 2022–23, the state is not proposing additional

contributions using Proposition 2 revenues or contribution rate relief for employers. As a result, state contributions are projected to decrease and employer contributions are projected to increase in fiscal year 2022–23.² Member contributions are projected to slightly decrease resulting from refined estimates for creditable compensation.

Changes in budgeted expenditures are primarily driven by projected increases in pension benefit payments due to a growing retiree base and an annual non-compounding 2% benefit adjustment. The overall increase in administrative expenditures in fiscal year 2022–23 is primarily driven by increased funding for property management and technology-related services contracts, staffing increases for workload management, the second year of scheduled expenditures for the continued implementation of the investment management plan in support of the CalSTRS Collaborative Model and state mandated adjustments to employee compensation and benefits.³

Other benefit payments are provided to retired and disabled members of the Defined Benefit Program and their beneficiaries through annual distributions (in quarterly payments) to restore purchasing power up to 85% of the initial monthly benefit. The population of members eligible for receiving purchasing power protection benefit payments is projected to grow due to rising inflation.

1 Pursuant to SB 90 and AB 84, the fiscal year 2018–19 state contribution of approximately \$2.2 billion made in advance on behalf of employers will be used to pay the contributions required by employers for 2019–20, 2020–21, 2021–22 fiscal years, such that employers will remit 1.03%, 2.95% and 2.18% less, respectively, than is required by the CalSTRS Funding Plan.

2 The board has limited authority to adjust state contribution rate by 0.5% annually. Additionally, starting in the 2021–22 fiscal year, the funding plan provides the board limited authority to adjust the employer contribution rate, limited to 1% of creditable compensation annually. For 2022–23, the board voted to keep the state supplemental and total employer contribution rates at existing levels. Additional information regarding contribution rates is provided in Appendix 3.

3 The investment management plan was approved as part of the 2021–22 Operating budget.

Teachers' Retirement Fund

(dollars in thousands)

	Actual 2020–21	Budget 2021–22	Budget 2022–23	Amount change
Beginning fund balance	\$247,524,499	\$310,947,939	\$326,242,955	\$15,295,016
Revenues				
Investment income	67,522,056	19,440,600	21,995,000	2,554,400
Employer contributions	5,745,597	6,291,709	6,932,181	640,472
Member contributions	3,742,508	3,887,698	3,799,000	(88,698)
State contributions	3,730,902	4,279,040	3,718,257	(560,783)
Other income	90,492	91,115	97,000	5,885
Total fund revenues	80,831,555	33,990,162	36,541,438	2,551,276
Expenses				
Pension benefit payments	16,403,006	17,521,228	18,397,290	876,062
External investment management	261,398	299,795	313,423	13,628
Administrative expenditures	253,066	322,864	371,673	48,809
Contribution refunds	101,549	116,383	107,402	(8,981)
Other benefit payments	191,089	210,000	262,000	52,000
Other expenditures ¹	186,832	213,701	232,376	18,675
Debt service payments ²	11,175	11,175	11,175	-
Total fund expenses	17,408,115	18,695,146	19,695,339	1,000,193
Ending fund balance	\$310,947,939	\$326,242,955	\$343,089,054	\$16,846,099
Percent change				5.2%

1 Other expenditures are primarily composed of investment transactional costs for securities lending, foreign taxes and borrowing costs on investment-related master lines of credit.

2 The 2022–23 budget excludes bond issuance costs for the additional \$18.5 million that was approved for completion of the Headquarters Expansion Project. These estimates will be provided after the bonds are issued and included as part of the 2023–24 Annual Budget Report.

Teachers' Replacement Benefits Program Fund

The Teachers' Replacement Benefits Program is an excess benefits arrangement for Defined Benefit Program members that is administered as a qualified excess benefit arrangement through a separate pension program apart from the other three State Teachers' Retirement Plan programs. It was created pursuant to Education Code section 24260 and is established in accordance with IRC section 415(m). IRC section 415(b) imposes a dollar limit on the annual retirement benefits an individual may receive from a qualified defined benefit pension plan. The limit for individual CalSTRS 2% at 60 members varies based on the age at which they retire. For calendar year 2021, the federal dollar limit applicable to a CalSTRS member retiring at exactly age 65 and receiving only a single-life benefit from the Defined Benefit Program was \$195,594. The federal dollar limit for other ages at retirement and other benefit types will differ.

Employer contributions that would otherwise be credited to the Defined Benefit Program each month are instead credited to the Teachers' Replacement Benefits Program to fund monthly program costs. Monthly employer contributions are received and paid to members in amounts equivalent to the benefits not paid as a result of IRC section 415(b), subject to withholding for any applicable income or employment taxes.

Budgeted employer contributions and pension benefit payments for 2022–23 remain relatively flat based on historical trends. Additionally, CalSTRS 2% at 62 members are not eligible to receive benefits from the Teachers' Replacement Benefits Program Fund and are not expected to earn benefits that would exceed the federal limit as a result of limits on creditable compensation under the California Public Employees' Pension Reform Act of 2013.

Teachers' Replacement Benefits Program Fund

(dollars in thousands)

	Actual 2020–21	Budget 2021–22	Budget 2022–23	Amount change
Beginning fund balance	\$ -	\$ -	\$ -	\$ -
Revenues				
Employer contributions	12,618	11,200	11,333	133
Total fund revenues	12,618	11,200	11,333	133
Expenses				
Pension benefit payments	12,618	11,200	11,333	133
Total fund expenses	12,618	11,200	11,333	133
Ending fund balance	\$ -	\$ -	\$ -	\$ -
Percent change				0%

CalSTRS Pension2 Personal Wealth Plan

The CalSTRS Pension2 Personal Wealth Plan (Pension2) includes two tax-deferred defined contribution plans pursuant to IRC sections 403(b) and 457(b), which were established by Education Code sections 24950 and 24975, respectively. Pension2 offers participants 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. Voya Institutional Plan Services and the Teachers Insurance and Annuity Association are responsible for administrative services, including custody and

recordkeeping, while CalSTRS determines the investment options that are offered to plan participants.

CalSTRS' marketing of the Pension2 Program has significantly increased member enrollments in the IRC 403(b) and 457(b) plans. The program experienced overall membership growth of 19.7% in the 2020–21 fiscal year. Given the current member growth trajectory, current forecasts project increases in participant contributions. As assets in the plans have grown, so have outstanding member loans on plan assets. Income generated from the loans is expected to increase as reflected in other income.

Pension2

(dollars in thousands)

	Actual 2020–21	Budget 2021–22	Budget 2022–23	Amount change
Beginning fund balance	\$1,313,887	\$1,765,801	\$2,019,826	\$254,025
Revenues				
Investment income	309,511	123,606	132,258	8,652
Employer contributions	1,283	1,179	1,260	81
Member contributions	234,507	234,720	289,469	54,749
Other income	408	396	464	68
Total fund revenues	545,709	359,901	423,451	63,550
Expenses				
Contribution refunds	6,613	6,944	7,291	347
Other benefit payments	82,895	94,468	97,500	3,032
Other expenditures	4,287	4,464	4,585	121
Total fund expenses	93,795	105,876	109,376	3,500
Ending fund balance	\$1,765,801	\$2,019,826	\$2,333,901	\$314,075
Percent change				15.5%

Teachers' Deferred Compensation Fund

The Teachers' Deferred Compensation Fund was established pursuant to Education Code section 24976 and is used to account for ancillary activities associated with deferred compensation plans and programs offered by CalSTRS to enhance the tax-deferred financial options for members and their beneficiaries.

The TDCF is funded by the fee revenues received by CalSTRS from deferred compensation plans and a vendor registration program. The TDCF includes 403bCompare which is a state-sponsored website provided by CalSTRS that offers a clear and transparent way to compare investment fees, performance and services for 403(b) plans offered in California. The TDCF

also accounts for all administrative expenditures associated with the Pension2 Program.

The projected decrease in both revenues and expenses is due to structural changes in the management of the 403bComply program.¹ The 403bComply service offers 403(b) plan implementation guidance, ongoing plan compliance and maintenance for employers offering a 403(b) defined contribution product. Effective June 1, 2021, CalSTRS and the program's third-party administrator entered into a purchase and sale agreement selling CalSTRS' interest in the 403bComply program. As a result of such changes, revenues from the program will slightly decrease in 2022–23 and third party costs associated with administering the program will no longer be incurred.

Teachers' Deferred Compensation Fund

(dollars in thousands)

	Actual 2020–21	Budget 2021–22	Budget 2022–23	Amount change
Beginning fund balance	\$1,814	\$2,322	\$2,216	(\$106)
Revenues				
Investment income	11	11	11	-
Other income	2,108	2,099	1,817	(282)
Total fund revenues	2,119	2,110	1,828	(282)
Expenses				
Administrative expenditures	1,611	2,216	1,929	(287)
Total fund expenses	1,611	2,216	1,929	(287)
Ending fund balance	\$2,322	\$2,216	\$2,115	(\$101)
Percent change				(4.6%)

1 Additional details regarding the 403bComply Program changes are provided in the September 2021, Teachers' Retirement Board Item 13 - Chief Executive Officer Report.

Teachers' Health Benefits Fund

The Teachers' Health Benefits Fund is used to administer a cost-sharing, multiple-employer other postemployment benefit plan known as the Medicare Premium Payment Program. The program was established pursuant to Education Code section 25930. The MPP Program pays Medicare Part A premiums and Medicare Parts A and B late enrollment surcharges for eligible members of the Defined Benefit Program who were retired or began receiving a disability allowance prior to July 1, 2012, and were not eligible for premium-free Medicare Part A. Also, members who retire on or after July 1, 2012, are not eligible for coverage under the MPP Program. The Teachers' Retirement Board has exclusive control of the administration of the fund. The THBF is continuously appropriated and is funded on a pay-as-you-go basis from a portion of monthly employer contributions.

In accordance with Education Code section 22950, contributions that would otherwise be credited to the Defined Benefit Program each month are instead credited to the MPP Program to fund monthly program and administrative costs. Total redirections to the MPP Program are monitored to ensure that total incurred costs do not exceed the amount initially identified as the cost of the program.

Employer contributions and other benefit payments in fiscal year 2022–23 are projected to decline slightly based on historical trends of reduced membership in the program. Year-over-year changes in budgeted administrative expenditures are primarily associated with state-mandated adjustments to staff compensation and benefits, which are partially offset by a decrease in pro rata assessments by the state's Department of Finance.

Teachers' Health Benefits Fund

(dollars in thousands)

	Actual 2020–21	Budget 2021–22	Budget 2022–23	Amount change
Beginning fund balance	\$292	\$277	\$195	(\$82)
Revenues				
Investment income	7	7	7	-
Employer contributions	26,988	27,338	26,954	(384)
Total fund revenues	26,995	27,345	26,961	(384)
Expenses				
Administrative expenditures	633	834	893	59
Other benefit payments	26,377	26,593	26,061	(532)
Total fund expenses	27,010	27,427	26,954	(473)
Ending fund balance	\$277	\$195	\$202	\$7
Percent change				3.6%

Policies

The following policies reflect CalSTRS’ overall system of principles to guide decisions and achieve balanced outcomes while ensuring the organization models integrity and ethics. Policies are reviewed annually and updated as required. Policies provide an overall framework for our

board governance and fiduciary responsibility, services to members, management and operation of the investment portfolio, and core business processes and activities, including established budget and accounting guidelines.

Board policy¹

Under the California Constitution, Article 16, Section 17, the Teachers’ Retirement Board has the sole and exclusive fiduciary responsibility over the assets of the retirement system and the duty to administer the system in a manner that will assure prompt delivery of benefits and related services to the members and their beneficiaries. Therefore, the ultimate authority to manage the system is vested in the board.

Article 16, Section 17 of the California Constitution (Proposition 162)²

- (a) *The retirement board of a public pension or retirement system shall have the sole and exclusive fiduciary responsibility over the assets of the public pension or retirement system. The retirement board shall also have sole and exclusive responsibility to administer the system in a manner that will assure prompt delivery of benefits and related services to the participants and their beneficiaries. The assets of a public pension or retirement system are trust funds and shall be held for the exclusive purposes of providing benefits to participants in the pension or retirement system and their beneficiaries and defraying reasonable expenses of administering the system.*

This authority provides the basis for which all policies are established and affords the system a significant level of autonomy from state administration as compared to other state agencies.

1 Refer to the **Teachers’ Retirement Board Policy Manual** for a comprehensive list of Teachers’ Retirement Board policies.

2 Proposition 162 amended the California Constitution to give the board of each public pension system authority and fiduciary responsibility for investment of monies and the administration of the pension system.

Benefits and Services Policy

CalSTRS desires to expand and improve, in a prudent manner, the benefits and services provided through the funds it administers as appropriate for public retirement plans.

Pursuant to Proposition 162, the Teachers' Retirement Board shall have the sole and exclusive fiduciary responsibility to administer the system in a manner that will assure prompt delivery of benefits and related services to the participants and their beneficiaries. Consistent with this responsibility, one of the goals of the board is that the system's members be served in a prompt, accurate and efficient manner.

Investment Policy and Management Plan

The main goal for CalSTRS is to “maintain a financially sound retirement system.” Within this context and in conjunction with the State Constitution and Education Code, the following general investment objectives are designed in consideration of the Investment Beliefs to establish a framework for the operation of the investment portfolio. General investment objectives related to the CalSTRS Investment Portfolio, as stated in the **IPMP** include:

Provide for present and future benefit payments: Provide liquidity to pay benefits to its participants and their beneficiaries in the amounts and at the times called for through the investment of contributions and other fund assets, strive to meet the assumptions built into the actuarial model and strive to maintain a fully funded pension system.

Diversify the assets: Seek to diversify the assets to achieve the desired rate of return at a prudent level of risk. The asset structure must provide for diversification of risk between asset classes in order to manage the risk/return relationship through strategic asset allocation.

The reduction of CalSTRS' funding costs: Within prudent levels of risk, the reduction of CalSTRS' funding costs shall be a consideration in the organization and structure of the investment portfolio.

Maintain the trust of the participants and public: Manage the investment program in such a manner that will enhance the member and public's confidence in the CalSTRS Investment Program.

Establish policy and objective review process: A formal review of the CalSTRS Investment Policy and Management Plan will be conducted annually, with an updated financial projection developed every two years.

Create reasonable pension investments relative to other pension funds: The selection of investment vehicles and policies will be judged against other private and public pension funds. Investment performance, asset management costs, staffing and overall expenses will be compared to other public and corporate pension plans, with special emphasis on comparisons with other large public funds.

Minimize costs: Management fees, trading costs and other expenses will be aggressively monitored and controlled.

Compliance with state and federal laws: The investment program must operate in compliance with all applicable state and federal laws and regulations concerning the investment of pension assets.

Budget Policy

CalSTRS maintains our budget and results under the modified cash basis method. Under this method, revenue is recognized when it is due, and expenses are recognized when a documented commitment to make the expenditure is established or the goods and services are received. Operational expenses are controlled primarily through budget and accounting policies. Among other controls and processes, these

policies manage position requests, the availability of appropriated funds, funding sources, methods for requesting additional funding and the development of budgets.

Specific policies related to the CalSTRS budget include but are not limited to:

Budgetary/Legal basis accounting and reporting: CalSTRS uses the accrual basis of accounting for our *Annual Comprehensive Financial Report*. We use the modified cash basis of accounting for our budgetary/legal basis reporting, which combines elements of the accrual basis and the cash basis. The Budgetary/Legal Basis Annual Report is prepared in compliance with Government Code sections 12460 and 13344 and in conformance with the Budget Act for each fiscal year.

Budgetary funds period of availability: CalSTRS receives legal authorizations to make expenditures from specific funds and for specific purposes. Operating Budget funds come from both annual and continuous appropriations. Generally, CalSTRS has one fiscal year to encumber and two fiscal years to liquidate funds under an annual appropriation. Other appropriations may have longer periods of availability based on the implementing legislation. Continuous appropriations do not have to be encumbered or liquidated within a specific time frame.

Commitment of budgeted funds policy: CalSTRS uses pre-encumbrances, encumbrances and earmarked funds to designate and reserve budget funds for specific purposes. The most common expenditures made under the Operating Budget are purchases of goods and services, travel expenses, training expenses, and salaries and wages.

Funding sources for budgeted expenses: This policy sets in place the responsibility that the correct appropriations are charged at the time of purchase at the division and branch level. Approval of all budgeted expenses is subject to the availability of funds within each appropriation. This policy helps ensure the

correct appropriations are being charged at the time of purchase.

Request additional funding: Within a fiscal year, needs for additional funding authority may be identified. In most cases, funding can be obtained through redirection of available resources within CalSTRS or the upcoming annual budget cycle. In some cases there may be an immediate need for resources and funding that cannot be delayed until the next budget cycle. Immediate needs might be the result of external requirements or internally identified priorities. In these limited circumstances, there is a formal process to obtain additional funding from internal reserves. This process requires executive approval.

Responsibilities using a decentralized budgeting system: CalSTRS uses a decentralized budgeting system. After the initial budget allotment each fiscal year, the funding for each business area is under the purview of its executive, director or manager. Budget transfers within each major budget category (salaries, benefits or operating expense) are allowed; however, transfers across major budget categories require approval from the Budget Operations unit, within the Financial Services Branch.

Financial Accounting and Reporting Policy

Specific policies related to financial accounting and reporting include but are not limited to:

Accounting for contributions: The statutory source for revenue policy regarding contributions is Education Code section 22002. It provides that three sources contribute to the retirement fund: members, employers and the state. This policy establishes guidelines for accounting for employer, member and state contributions, including penalties and interest. CalSTRS recognizes revenue for employer, member and state contributions, service credit purchases and retirement enhancements in accordance with

GAAP guidance. With limited exceptions, CalSTRS requires revenue recognition on a full accrual basis. Contributions received from governmental entities are recognized when the monies are made available to CalSTRS through appropriation.

Cash Balance Benefit administrative transfer:

Describes CalSTRS' approach to perform administrative transfers of funds from the Cash Balance (CB) Benefit Program to the Defined Benefit (DB) Program. The authority for such action was granted by legislation and subsequent board action. Members may become members in CalSTRS as part of the Cash Balance Benefit Program rather than the Defined Benefit Program. If they later become eligible for the Defined Benefit Program, there is a provision to transfer funds from the Cash Balance Benefit Program into the Defined Benefit Program.

Operational asset capitalization: Establishes the guidelines for determining what expenditures should be capitalized, how those assets are depreciated and the treatment of subsequent expenditures. These guidelines are discussed in the "Budget overview" section.

Receivable collections and write-off: CalSTRS collects all amounts due to the fund to the full extent allowed by law and records receivables for amounts due to the Teachers' Retirement Fund and other funds as soon as they are identified. With respect to write-offs, CalSTRS reports all discharged debts to the Teachers' Retirement Board semiannually. Additionally, CalSTRS submits the Accounts Receivable Report annually to the State Controller's Office. The report includes all receivable activities, collections, aged receivables, write-offs and account balances, which are published on a quarterly basis on CalSTRS.com.

Allocations for financial and managerial accounting: CalSTRS establishes accounting policies and structure to accumulate and report financial information for the various programs and funds. In cases where financial data is not directly assignable to a specific program or fund, CalSTRS prepares various allocations to ensure

the appropriate assets, liabilities, income and expenses for each program and fund are accounted for in accordance with applicable accounting standards, laws and regulations and completed in a consistent and standardized manner.

Actuarial valuations for financial statement

presentation: CalSTRS prepares an actuarial valuation of the State Teachers' Retirement Plan and the Medicare Premium Payment Program for financial statement purposes annually, as required by GASB Statement No. 67 and GASB Statement No. 74, respectively. CalSTRS uses actuarial assumptions in conformity with Actuarial Standards of Practice issued by the Actuarial Standards Board as the basis for investment return, inflation, mortality, actuarial experience and other assumptions in its actuarial valuations.

Private assets fair value cut-off date for financial

reporting: Establishes the financial reporting period end cut-off date for recognizing and recording adjustments to the fair value of private asset investments, which are primarily composed of investments in private equities and real estate.

Financial data objects: Defines the guidelines and requirements that must be followed to administer and manage Financial Data Objects in BusinessDirect, CalSTRS' ERP system, and establishes internal controls to mitigate the risk of unauthorized changes to Financial Master Data and/or mapping tables within the system. This policy outlines the assessment of impact of the proposed change as well as establishes the roles and responsibilities required for administering and managing FDO changes.

Funding of the Medicare Premium Payment

Program: The Medicare Premium Payment Program is funded on a pay-as-you-go basis from a portion of monthly employer contributions. Contributions that would otherwise be deposited into the Teachers' Retirement Fund and credited to the Defined Benefit Program each month are instead deposited into the Teachers' Health Benefit Fund and credited to the MPP Program to fund monthly program benefits and administrative costs.

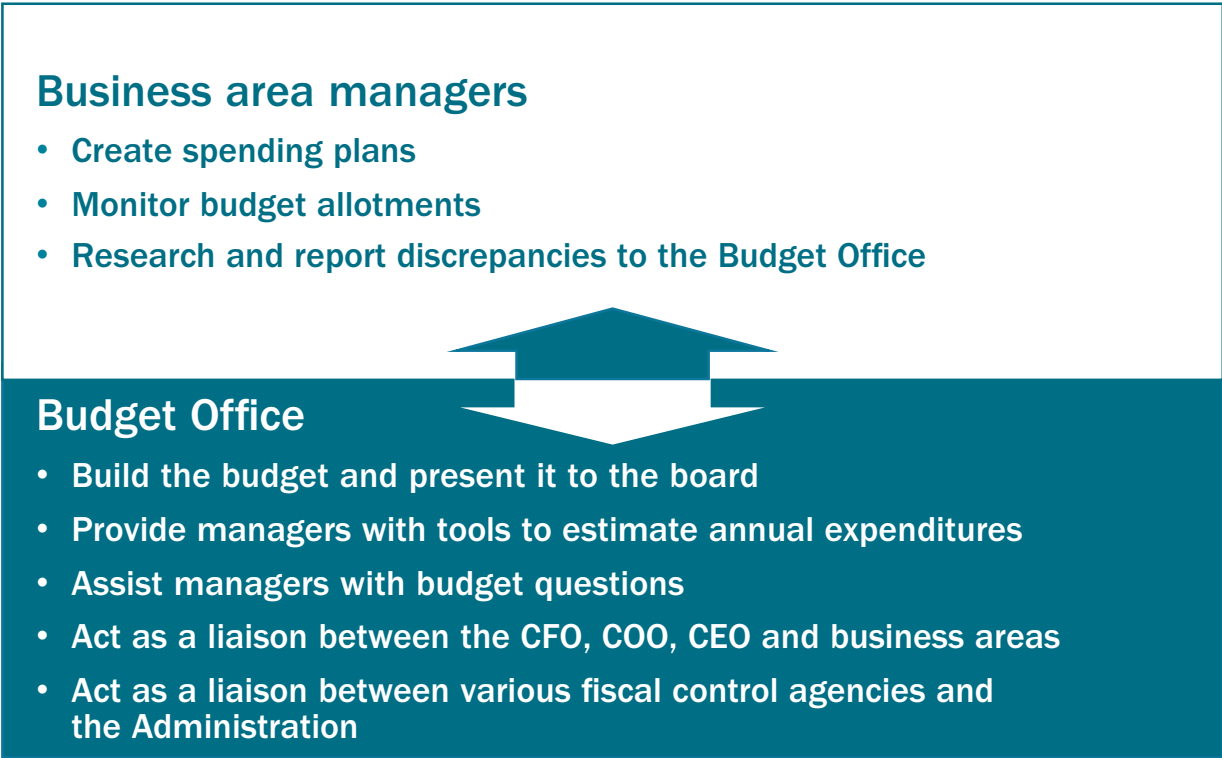
Budget development

Budget development and management process

CalSTRS uses a decentralized budgeting system in accordance with our budget policy. The Budget Office oversees and manages the organization’s total budget through collaboration with branch and business area managers. The roles and responsibilities of this process are illustrated below.

A balanced budget ensures the organization’s use of resources for operating purposes does not exceed available resources over a defined budget period. CalSTRS does not maintain a balanced budget in the traditional sense. Due to the variability of certain types of revenues and expenses such as investment gains and losses, investment management and advisory fees, and benefit payments, budgets for these items may exceed their initial estimated amounts.

Budget development and management – roles and responsibilities



Conversely, the majority of the operational budget is subject to the legislative process and, therefore, limited to what has been appropriated for the year. CalSTRS maintains internal controls to monitor budget usage throughout the year for all revenues and expenses.

CalSTRS also monitors our pension administration and investment costs relative to peers by participating in CEM Benchmarking studies. With this global perspective on pension plan administrative and investment costs, we further analyze operations and identify where additional efficiencies can be achieved and best practices can be implemented.

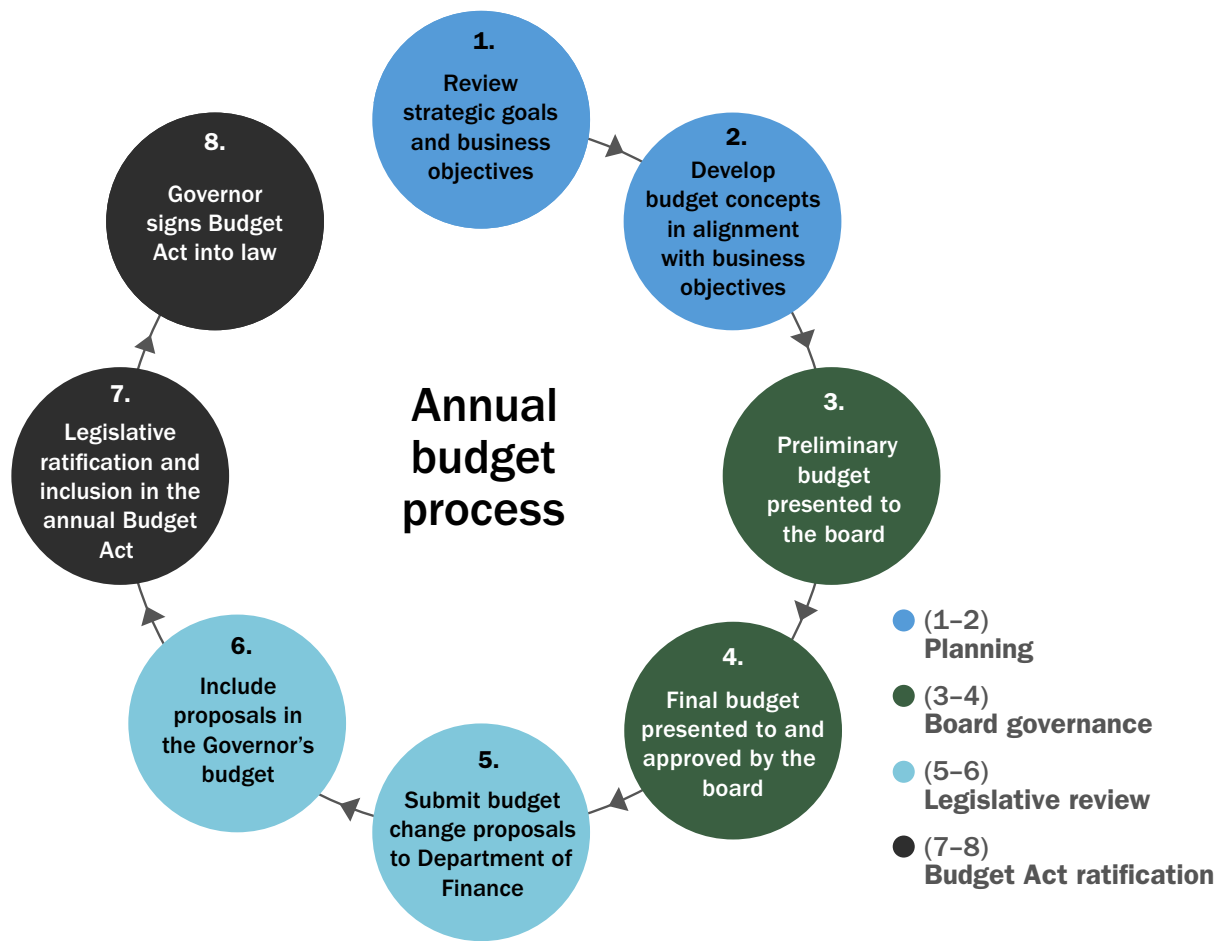
Annual budget development process

The annual budget development process is a detailed, structured and interactive effort to facilitate informed and value-based financial decisions on the organization's upcoming funding needs. The goal is to manage resources and administrative costs to efficiently facilitate pension and investment activities, while remaining fiscally prudent.

The process commences more than a year in advance of the final adoption of the budget. This process begins with an analysis of resource needs for the upcoming budget year to address strategic initiatives, enterprise priorities, enterprise risk and compliance landscapes, as well as maintaining core business functions.

The process advances with the Teachers' Retirement Board's final review and approval. After the board's review and approval, the budget moves to the state budget process, which commences with Legislative review and final Budget Act ratification.

While the board maintains fiduciary authority over the administration of the system, certain components of the budget are subject to the state's annual budget process. CalSTRS' budget is administered through funds that are both annually and continuously appropriated. In general, annual appropriations represent expenditure authorization obtained each year, the majority of which require approval by the board and the Legislature. Continuous appropriations represent constitutional or statutory expenditure authorization which exists from year to year without further legislative or board approval. Augmentations to funds that are annually appropriated require ratification by the Legislature, approval of the Governor and include specific spending limits that are overseen by the Department of Finance and the State Controller's Office. Augmentations to funds that are continuously appropriated do not require legislative approval, and expenditures are limited only by the resources available within the funding source. The following diagram provides an overview of the annual budget cycle. Details for each phase of the process are provided below.



Planning

March – June

- The process commences with the review of strategic plan goals and business objectives, and the potential funding needs to successfully achieve those goals.
- Budget staff works with each business area to prepare augmentation requests for significant changes to the baseline budget that address strategic initiatives and other enterprise priorities. Budget augmentation requests are summarized and reviewed by staff and presented to the Chief Financial Officer and executive leadership for consideration. The budget augmentation requests can include, but are not limited to, funding associated with resource augmentations for both internal and external resources driven by new or expanded work scope, ongoing facilities maintenance, enhanced technology capabilities, and other project-based costs.
- The budget development process also includes an evaluation of incremental baseline changes for state mandated expenditures associated with employee compensation pursuant to collectively bargained union agreements, including changes for general salary increases, merit salary adjustments, and the associated impact on benefits, cost for implementing new legislation, and assessments from the DOF.

July – August

- After an internal review and analysis of all funding needs for the organization, the CFO, in conjunction with executive leadership, including the COO and CEO, approve the funding requests that will be presented to the board.
- Staff refines the proposed funding requests and compiles a preliminary budget for board review.

Board governance

September – November

- The CFO presents a preliminary budget, with a summary of significant budget changes to the board in September.
- After the September meeting, staff refine estimates as needed based on feedback received from the board, supplemental information received from the Department of Finance and additional requests for funding from the business areas deemed prudent by executive leadership.
- The refined estimates are incorporated into a final budget and presented to the board for review and approval in November.
- After the board approves the budget, staff commence preparation of BCP(s) for submission to the Department of Finance and the Legislature. This includes any augmentations requested to the annual appropriation.

Legislative review

December – May

- The Teachers' Retirement Board-approved budget is submitted to the Department of Finance for inclusion in the Governor's proposed budget. This includes BCP(s) for any augmentations requested to the annual appropriation. Pursuant to Proposition 162 and

by longstanding mutual agreement with the Department of Finance, CalSTRS' Operating Budget is submitted for inclusion in the Governor's proposed budget without change. The Governor's proposed budget is released to the public by January 10.

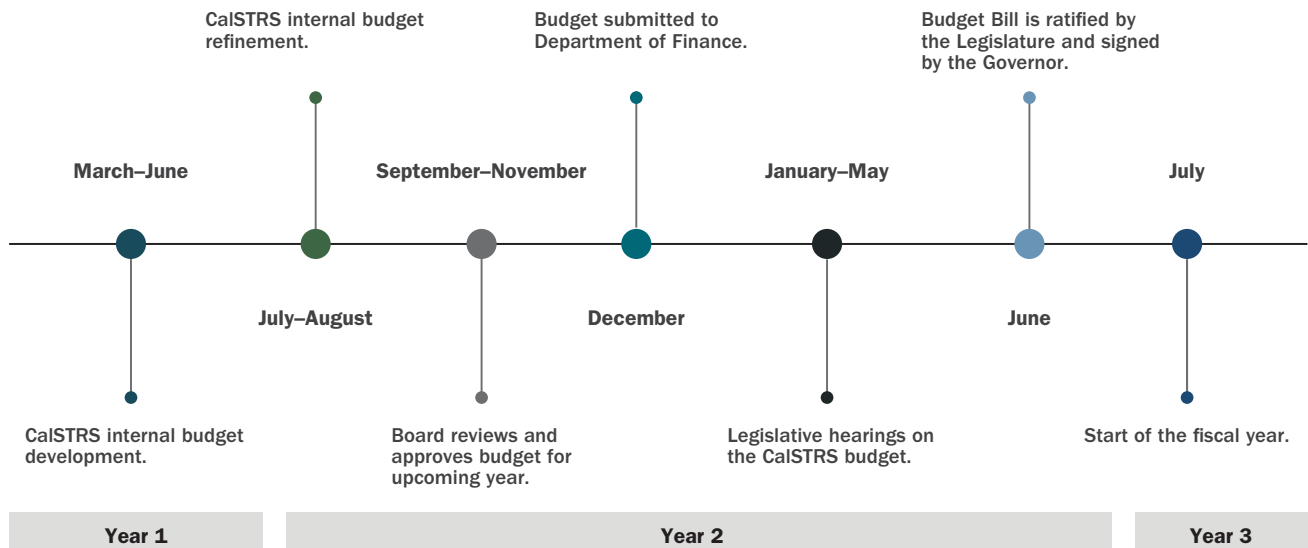
- Legislative subcommittees hold hearings to review the Governor's proposed budget. During these hearings, CalSTRS' BCP(s) are reviewed by each house—Senate and Assembly, and each vote on the proposal(s). If requested, the CFO and other executive leadership, as appropriate, may be asked to testify before the Legislature on behalf of CalSTRS to justify the need for funding.
- In mid-May, the Governor releases a revision of the proposed budget. The Legislature then finalizes its version of the budget, and any differences between the Senate and Assembly versions are negotiated in a legislative conference committee.

Budget Act ratification

June

- The final Budget Bill is ratified by the Legislature and signed into law by the Governor, which is constitutionally required to be passed by both houses by June 15. The Budget Bill becomes the Budget Act upon signature by the Governor.

The general timeline and CalSTRS' role in the budget process is illustrated below.



Budget controls and monitoring

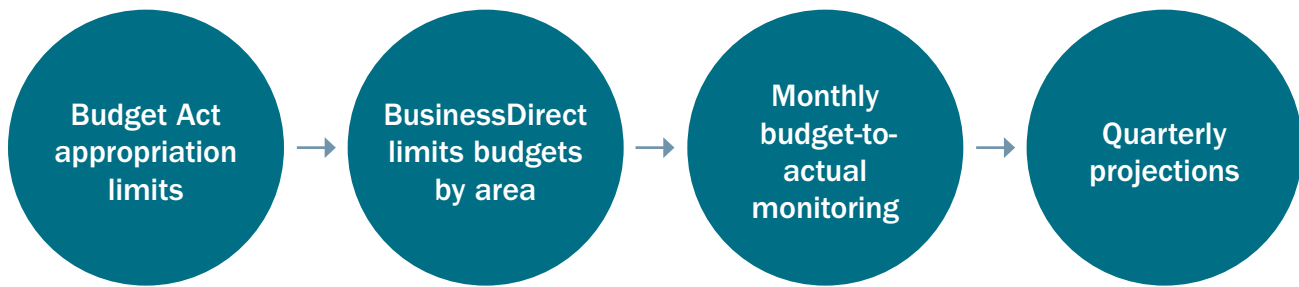
After the Governor’s Budget is passed, California law requires reconciliation and monitoring of agency budgets and expenditures between the State Controller’s Office and the Department of Finance. On an annual basis, the State Controller submits a budgetary-legal basis report to the Governor containing a statement of the funds of the state, its revenues and its expenditures during the preceding fiscal year. This report accounts for prior year adjustments, fund balances, revenues, expenditures and other components on the same basis as that of the applicable Governor’s Budget and the Budget Act. This process provides transparency on approved funding levels relative to total expenditures and assists CalSTRS with financial planning processes.

CalSTRS maintains multiple layers of control and monitoring activities throughout the organization to ensure the adopted budgets are appropriately managed. From a control perspective, the

budget is recorded in the CalSTRS enterprise resource planning system, BusinessDirect, which establishes expenditure limits by fund and branch. Additionally, the budget is recorded in both the State Controller’s and Department of Finance’s statewide budgeting and fiscal systems, providing overlapping layers of control and reconciliation.

On a monthly basis, staff reconciles budgetary information to SCO records and reviews budget consumption to ensure transactions are recorded accurately, and use is consistent with projections. Revenues and expenditures are also forecasted and monitored monthly to prevent exceeding established budget authority. These analyses are presented to executive management on both a monthly and quarterly basis. The board then receives quarterly reports comparing our budget-to-actual expenditures, which are published on the CalSTRS external website. These reports present performance against budgeted amounts and summarize any changes to the budget.

Budget controls and monitoring



If a business area anticipates a funding shortfall during the year, there are sequential steps to address the deficit. First, the business area must look within its existing budget to evaluate whether funds can be redirected from other sources within each budget category. If the existing budget does not have sufficient funds, then available funding from other business areas within the branch are considered. If funding is not available from within the branch, the Budget Office works to identify available funding from other business areas outside of the branch. The Budget Office works with management in areas with surplus funding to redirect those funds to the business area in need.

When additional funding cannot be identified within existing budgetary allotments, the business area may request the use of internal reserves. Internal reserves are maintained within the approved budget for unanticipated expenses and/or economic uncertainties that cannot be delayed until the next budget cycle. Use of internal reserves depend on approval by both the CFO and the COO.

CalSTRS prepares reports on actual spending and remaining budgetary spending authority annually and provides the reports to the Department of Finance.

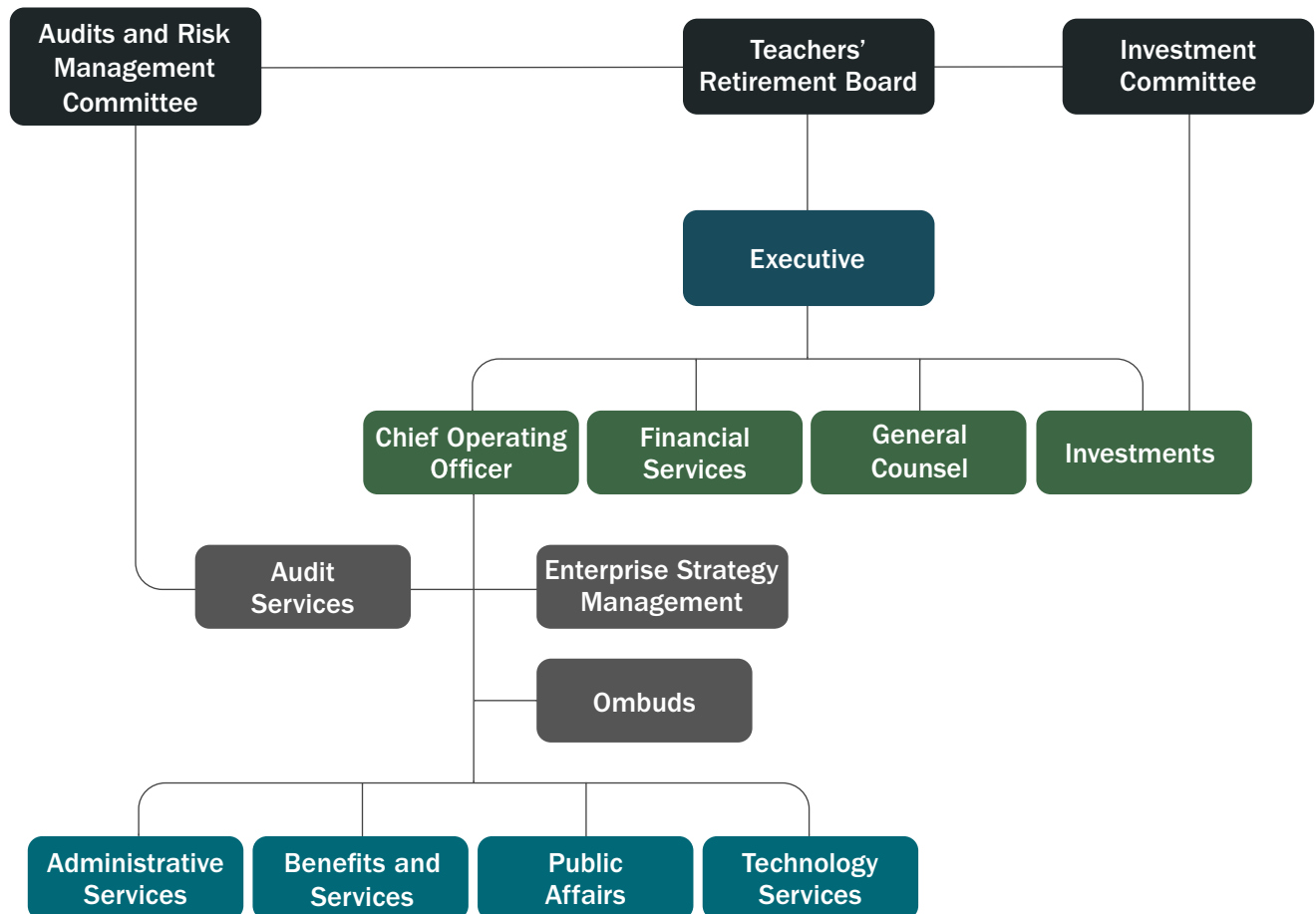
Position control

Generally, augmentations to authorized positions follow the standard budget process and must be ratified by the Legislature. Once established, authorized positions are recorded into BusinessDirect and monitored monthly. Upgrades or downgrades to existing positions are documented in BusinessDirect and reconciled monthly to approved personnel change documents. Positions that are upgraded past a certain threshold require authorization from the Department of Finance. The board sets the salary and incentive packages for certain executives and investment staff, and other compensation is determined through collective bargaining agreements between the state and employee unions.

To manage the variations in workload and large projects that are limited term in nature, CalSTRS maintains authority to establish additional full-time positions above the authorized limit to the extent that funding has been approved by the Teachers' Retirement Board. This process entails executive review and approval. While it varies by branch, CalSTRS generally has experienced approximately a 5% to 10% annual attrition rate.

Departmental information

The CalSTRS organization¹



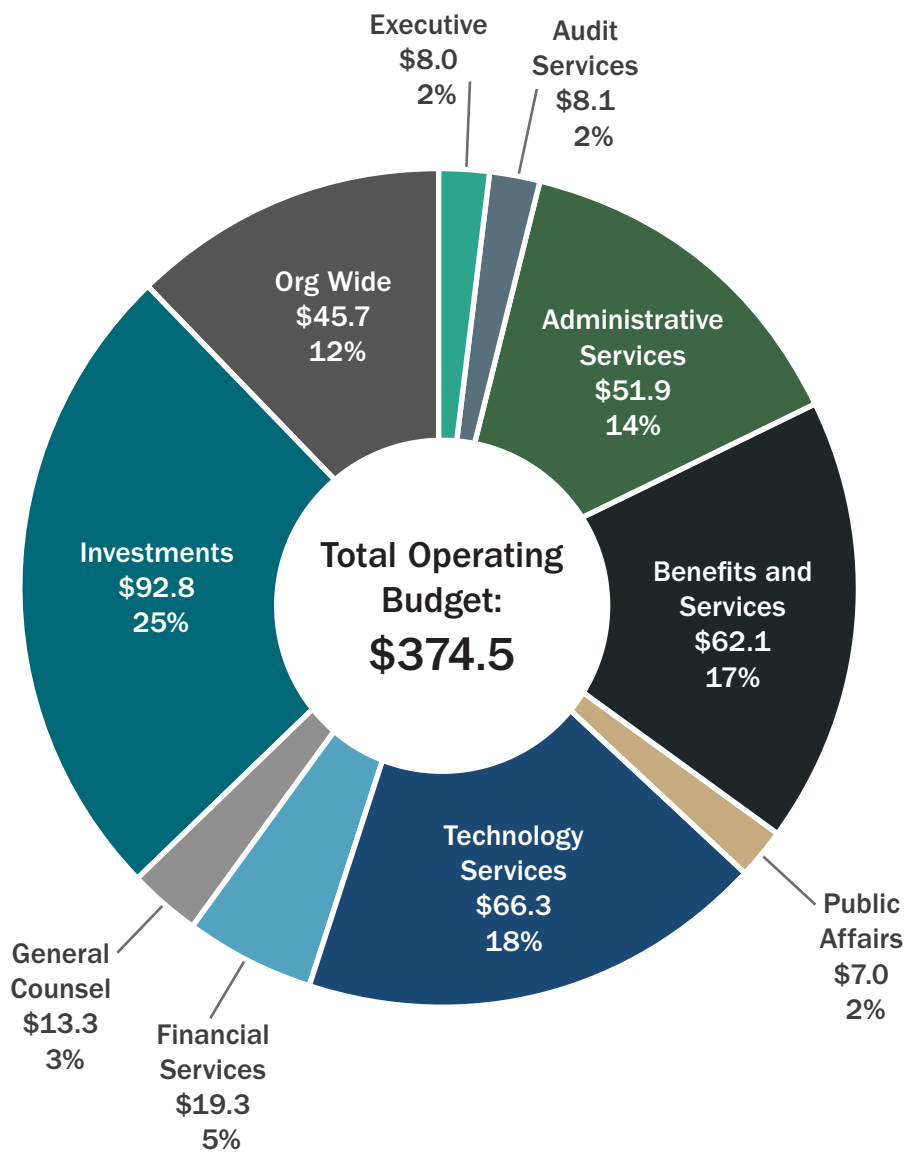
¹ In addition to the Audits and Risk Management and Investment committees, the board also has the Appeals, Benefits and Services, Board Governance, and Compensation committees. Additional information is provided in the “About the California State Teachers’ Retirement System” section.

Branch information

CalSTRS is divided into functional areas, each referred to as a branch. Within each branch are business areas. Each branch has a corresponding functional budget.

The following chart displays CalSTRS' 2022–23 total functional budget by branch, which includes salaries, benefits and operating expenses and equipment.

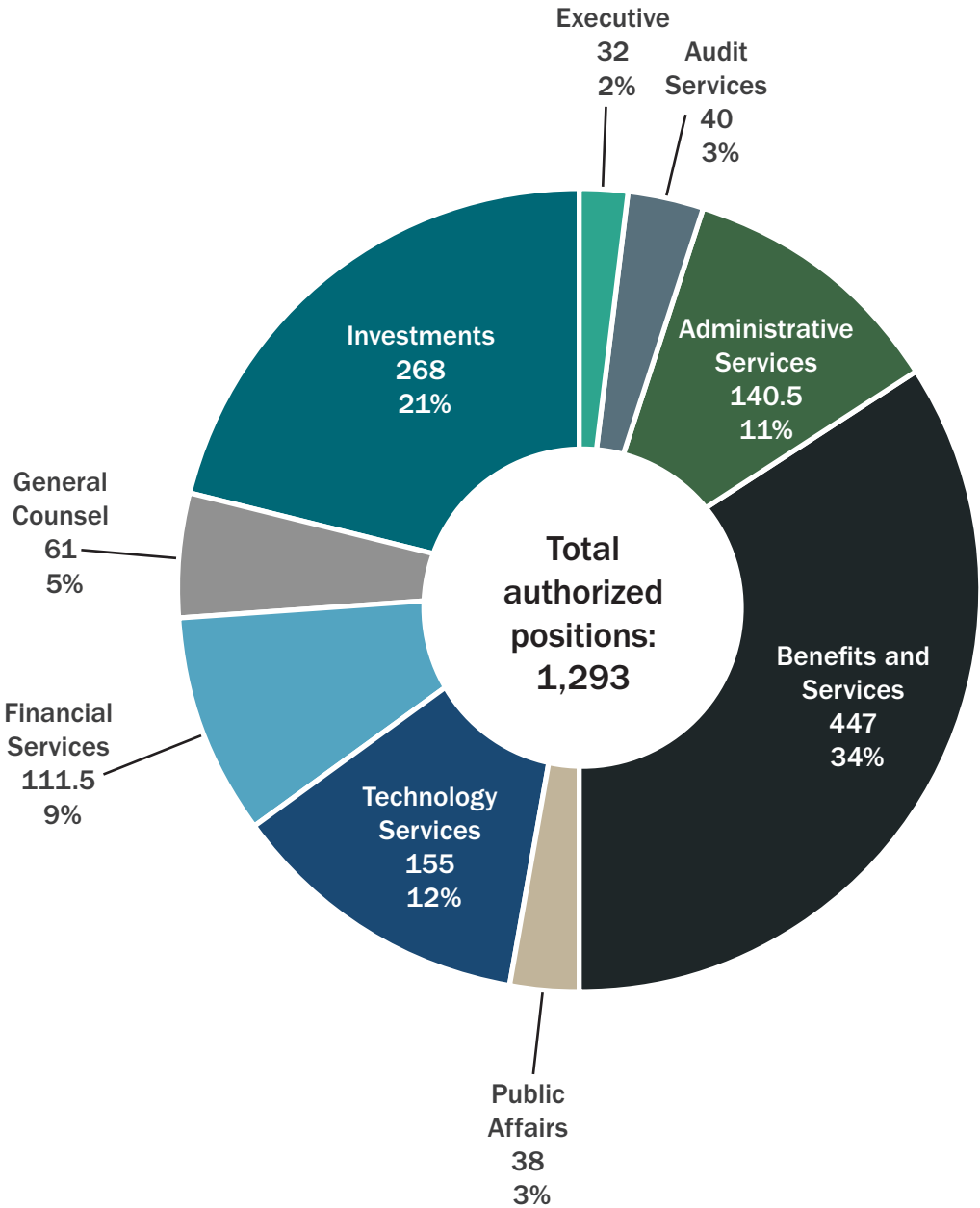
Total Operating Budget by branch¹
(dollars in millions)



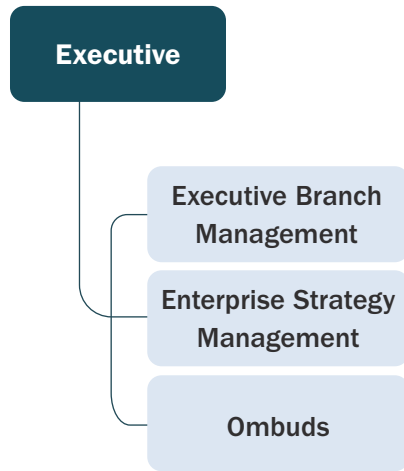
1. Org Wide budget is for enterprisewide expenses, including office supplies, contracts and internal reserves.

CaISTRS' total authorized positions by branch are displayed in the following chart. As referenced in the "Budget overview" section, the 2022–23 Operating Budget has 1,293 authorized positions.

Total 2022–23 authorized positions by branch



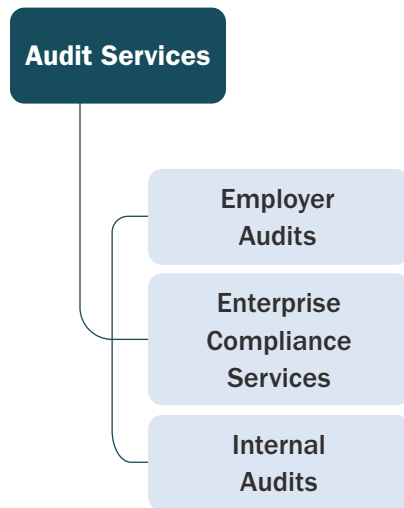
A description of each branch and the corresponding actual, budget and position information for fiscal years 2020–21, 2021–22 and 2022–23 is provided on the following pages.¹



Executive

The primary objective of the Executive Branch is to execute the CalSTRS mission of securing the financial future and sustaining the trust of California’s educators. The Executive Branch shapes the organization’s policies, operations and strategies consistent with the Teachers’ Retirement Board’s direction. The branch strives to promote a transparent, accountable, unified and high-integrity organization, whose growth is matched to the mission of paying benefits to California’s educators.

	Actual 2020–21	Budget 2021–22	Budget 2022–23
Authorized positions	29.8	32	32
(dollars in thousands)	\$7,083	\$7,736	\$7,987



Audit Services²

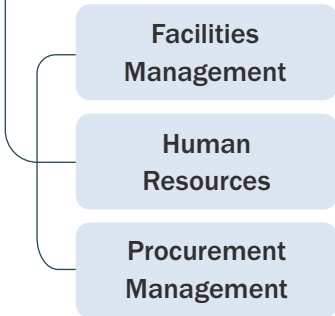
From an organizational structure perspective, Audit Services is not considered a branch; however, for independence purposes, the business area has reporting lines to both the Teachers’ Retirement Board and the chief operating officer. The mission of Audit Services is to provide independent, objective assurance through audit, compliance and consulting services designed to add value and improve CalSTRS’ operations. Audit Services assists CalSTRS in accomplishing our objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal controls and governance processes.

	Actual 2020–21	Budget 2021–22	Budget 2022–23
Authorized positions	33.4	39	40
(dollars in thousands)	\$7,983	\$7,740	\$8,101

1 Actual authorized positions are based on total filled positions for the fiscal year. If a position was filled for half the year, it is reflected as 0.5. This is done to align position counts with actual expenditures for salaries and benefits in the fiscal year.

2 Authorized positions and funding for Enterprise Compliance Services were approved as part of the 2022–23 Audit Services budget and are reflected in the table above. Effective April 1, 2022, ECS moved from Audit Services to the Financial Services Branch. This change will be reflected as part of the Financial Services Branch budget in CalSTRS 2023–24 Annual Budget Report.

Administrative Services

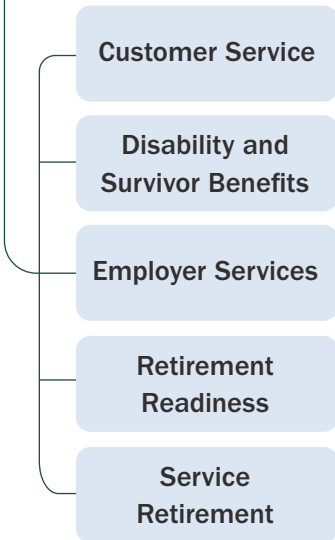


Administrative Services

The Administrative Services Branch provides Human Resources, Facility Management and Procurement Management services to internal and external business partners. The branch focuses on streamlining the organization’s internal operations and providing administrative support to optimize accountability, effectiveness, and performance. The branch strives to continuously improve the quality, cost effectiveness and efficiency of CalSTRS’ business functions.

	Actual 2020-21	Budget 2021-22	Budget 2022-23
Authorized positions	117.6	132.5	140.5
(dollars in thousands)	\$30,565	\$25,275	\$51,864

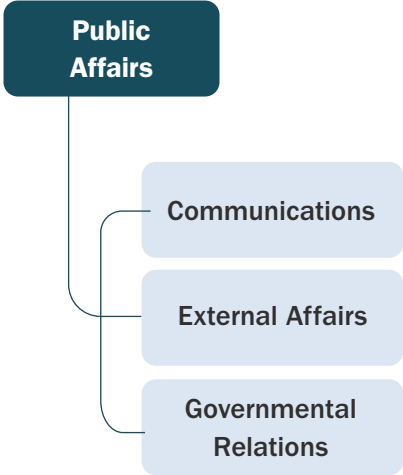
Benefits and Services



Benefits and Services

The Benefits and Services Branch is the largest business area in the CalSTRS organization. The branch’s primary goal is to deliver excellent service and secure the financial future of CalSTRS members. Benefits and Services business areas mirror the member lifecycle, starting with the establishment and maintenance of member accounts supported by accurate data reported from employers followed by ongoing communication through multiple channels. This further includes the delivery of appropriate retirement or disability benefits, the provision of effective education to members, and the extension of benefits to survivors.

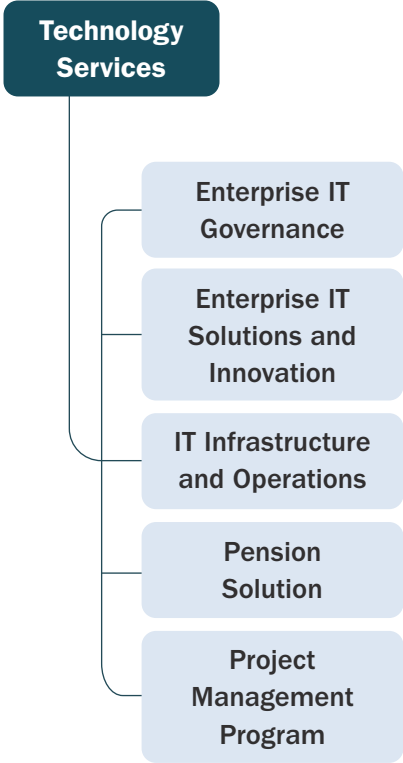
	Actual 2020-21	Budget 2021-22	Budget 2022-23
Authorized positions	388.2	427	447
(dollars in thousands)	\$49,223	\$58,700	\$62,083



Public Affairs

The Public Affairs Branch manages CalSTRS’ relationships with the state, CalSTRS stakeholders, including members and employers, and the public. As part of this effort, the branch serves as the primary liaison between CalSTRS and key stakeholder groups to provide a clear and consistent message regarding CalSTRS’ priorities, operational activities and fiduciary obligations. In addition, the branch actively engages in the legislative process to shape statutory and regulatory issues impacting the organization.

	Actual 2020-21	Budget 2021-22	Budget 2022-23
Authorized positions	35.8	38	38
(dollars in thousands)	\$5,828	\$6,787	\$7,056

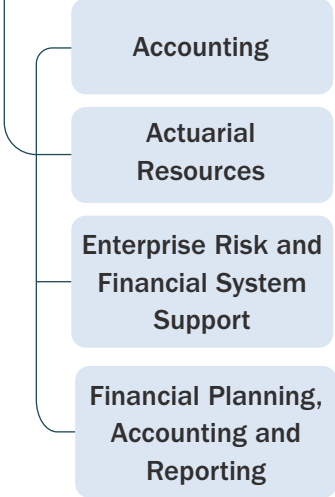


Technology Services

Technology Services realizes CalSTRS’ business goals through technology transformation and information technology operations with quality solutions, excellence in service, strategic partnerships and strong collaboration with internal and external stakeholders. Technology Services provides responsible management of CalSTRS’ IT assets through enforcing sensible IT governance, implementing information security, promoting quality management and performing proactive and preventive maintenance as well as continuous improvement.

	Actual 2020-21	Budget 2021-22	Budget 2022-23
Authorized positions	141.6	154	155
(dollars in thousands)	\$48,083	\$59,308	\$66,338

Financial Services

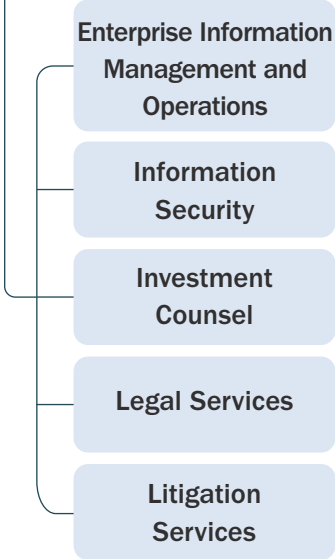


Financial Services

The Financial Services Branch provides financial and business process planning; financial, cost and operational accounting; actuarial services; enterprisewide risk management; and budget, performance and operational financial reporting. The Financial Services Branch plays a key role in preparing actuarial valuations, financial reports and operational budgets, addressing audit issues related to financial reporting and internal control, and advising CalSTRS executives on all fiscal-related matters impacting the organization.

	Actual 2020-21	Budget 2021-22	Budget 2022-23
Authorized positions	93.7	104.5	111.5
(dollars in thousands)	\$16,033	\$17,895	\$19,345

General Counsel

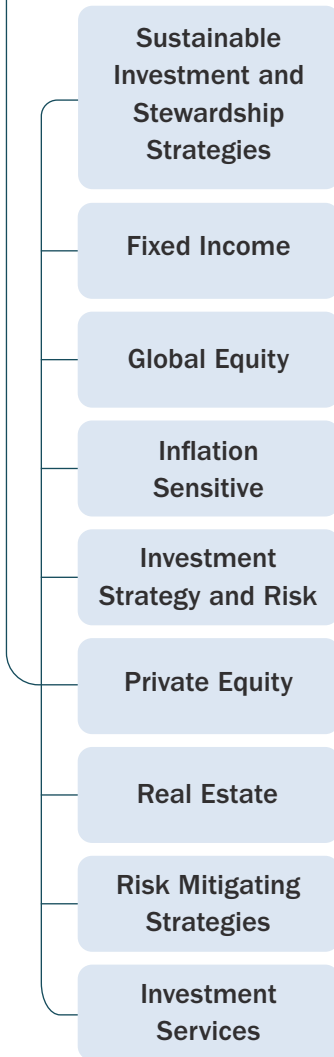


General Counsel

The General Counsel Branch provides legal advice and support to CalSTRS programs, executive management and the Teachers' Retirement Board. In addition, the branch provides independent and objective assurance that CalSTRS' assets are safeguarded, operating efficiency is enhanced, and compliance is maintained with prescribed laws and board and management policies.

	Actual 2020-21	Budget 2021-22	Budget 2022-23
Authorized positions	49.9	56	61
(dollars in thousands)	\$11,112	\$11,982	\$13,274

Investments



Investments

The Investments Branch oversees and manages the CalSTRS Investment Portfolio, which was valued at approximately \$308.6 billion as of June 30, 2021. The Investments Branch's primary performance objective is to achieve the actuarially assumed rate of return at a prudent level of risk. The branch continues to uphold its investment philosophy in long-term patient capital, which is to buy long-term net cash flows and capital gain potential at a reasonable price.

	Actual 2020-21	Budget 2021-22	Budget 2022-23
Authorized positions	192.9	249	268
(dollars in thousands)	\$56,059	\$83,531	\$92,812

Appendix

Appendix 1

Members and beneficiaries at a glance

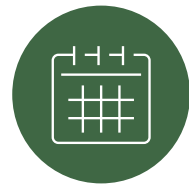
Today, CalSTRS is the largest educator-only pension fund in the world and the second largest pension fund in the United States. A summary of key statistics about our members and retirees is provided below.



\$16.6 BILLION

Benefits paid to members, which include service retirement benefits, disability benefits, survivor benefits and purchasing power supplemental payments

\$4,813 Average monthly Member-Only Benefit for those retiring in 2020-21



12,785

Number of service retirements during the fiscal year

24.7

Average years of member service credit

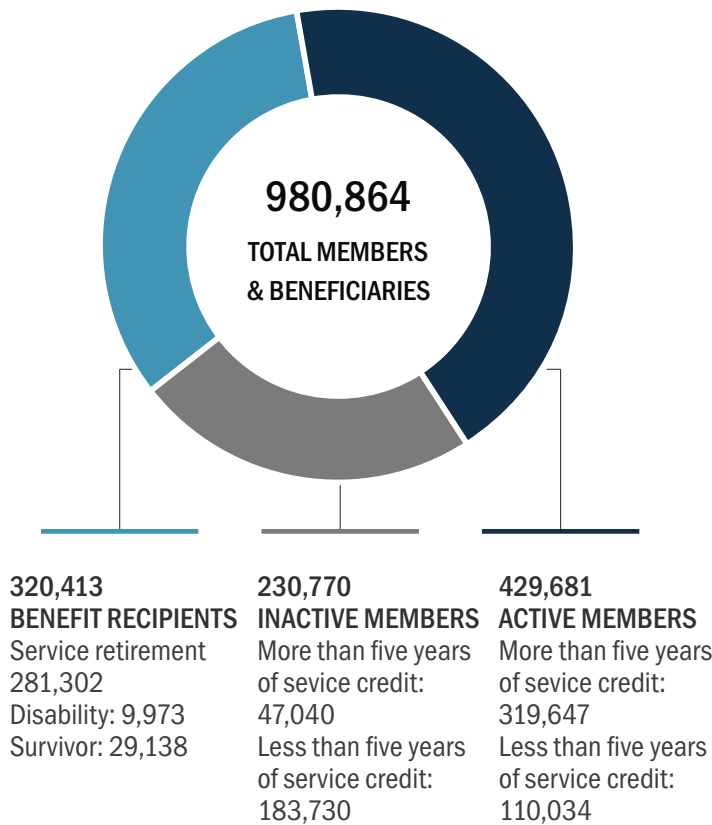
63.2

Average member age at retirement



59%

Percentage of members selecting the Member-Only Benefit



Appendix 2

CalSTRS retirement benefits fuel local economies

Defined Benefit Program

Retirees who live in California—Characteristics by county

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 \$13.0 billion in benefits to 235,676 retirees living in California during fiscal year 2020–21. 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’ seven member service centers.

County	Number of retirees	Estimated benefits paid in FY 2020–21 ¹
Alameda	7,769	\$430,526,904
Alpine	14	520,632
Amador	435	20,076,120
Butte	2,236	107,247,504
Calaveras	600	28,202,400
Colusa	121	5,918,352
Contra Costa	7,708	403,282,560
Del Norte	264	12,047,904
El Dorado	2,364	122,124,240
Fresno	6,673	352,094,172
Glenn	136	6,591,648
Humboldt	1,427	59,386,032
Imperial	866	53,248,608
Inyo	165	7,076,520
Kern	4,496	250,876,800
Kings	616	33,101,376
Lake	505	22,652,280
Lassen	237	11,165,544
Los Angeles	44,301	2,563,964,676
Madera	1,429	72,038,748
Marin	2,381	117,173,772
Mariposa	263	11,522,556
Mendocino	1,139	50,872,296
Merced	1,609	90,245,592
Modoc	93	3,520,980
Mono	201	10,024,272
Monterey	3,246	173,492,208
Napa	1,429	73,204,812
Nevada	1,642	77,633,760
Orange	21,961	1,385,387,724
Placer	4,554	241,762,752
Plumas	316	13,715,664
Riverside	13,799	765,513,324
Sacramento	9,546	481,805,712
San Benito	322	18,265,128
San Bernardino	10,072	567,335,616
San Diego	22,030	1,209,182,640
San Francisco	2,939	152,005,080
San Joaquin	4,188	228,916,080
San Luis Obispo	4,528	227,504,832
San Mateo	3,786	222,207,912
Santa Barbara	3,082	153,723,420
Santa Clara	9,326	550,718,952
Santa Cruz	2,980	151,193,280
Shasta	1,681	78,388,392
Sierra	68	3,080,400
Siskiyou	640	27,002,880
Solano	3,181	161,734,764
Sonoma	4,613	230,889,876
Stanislaus	3,301	188,909,628
Sutter	780	42,831,360
Tehama	775	37,181,400
Trinity	132	5,513,904
Tulare	3,204	177,591,312
Tuolumne	709	34,950,864
Ventura	7,219	403,426,596
Yolo	1,228	58,811,376
Yuba	351	16,772,184
Total	235,676	\$13,011,094,260



● MEMBER SERVICE CENTER

Benefit payments by amount



¹ The annualized benefits based on the June 2021 monthly benefits, which also include purchasing power protection payments from the Supplemental Benefit Maintenance Account.

Appendix 3

Contributions

The enactment of AB 1469, the CalSTRS Funding Plan, established a predictable schedule of contribution rate increases shared between members, employers and the state to bring CalSTRS toward full funding by 2046.

Member and employer contribution rates for the Defined Benefit Program are displayed in the following tables. For members, the rates differ depending on when they were first hired to perform service that could be creditable to CalSTRS. If hired before January 1, 2013, members are eligible for full retirement at age 60, whereas those hired on or after this date are eligible at age 62.

Member contribution rates

Effective date	CalSTRS 2% at 60 members ¹	CalSTRS 2% at 62 members ²
July 1, 2020	10.250%	10.205%
July 1, 2021	10.250%	10.205%
July 1, 2022	10.250%	10.205%

Starting in the 2021–22 fiscal year, the funding plan provides the Teachers' Retirement Board limited authority to adjust the employer contribution rate. Those adjustments are limited to 1% of creditable compensation annually, but not higher than 20.25% total and no lower than 8.25%. In July of 2046, the employer contribution rates return to the statutory values established prior to the implementation of the CalSTRS Funding Plan.

Employer contribution rates

Effective date	Rate ³
July 1, 2020	16.150%
July 1, 2021	16.920%
July 1, 2022	19.100%
July 1, 2023, to June 30, 2046	Subject to board determination
July 1, 2046 and thereafter	Revert to base rate ⁴ of 8.25%

1 The contribution rate for CalSTRS 2% at 60 members is set in statute at 10.250%.

2 The contribution rate for CalSTRS 2% at 62 members is adjusted if the normal cost increases or decreases by more than 1% since the last time the member contribution rate was set.

3 Through special legislation approved in June 2019 and June 2020, the state made supplemental contributions of approximately \$2.2 billion to CalSTRS on behalf of employers to supplant the amounts submitted by employers for fiscal years 2019–20 through 2021–22. Specifically, employers will remit 1.03%, 2.95% and 2.18% less than is required by the CalSTRS Funding Plan for fiscal years 2019–20, 2020–21 and 2021–22, respectively.

4 The rate as a percentage of teacher payroll that employers were statutorily required to pay prior to the implementation of the CalSTRS Funding Plan.

State contribution rates are calculated as a percentage of the member creditable compensation from two fiscal years prior. The board also has limited authority to adjust state contribution rates from July 1, 2017, through June 30, 2046. The board cannot adjust the supplemental rate by more than 0.5% in a fiscal year, and if there is no unfunded actuarial obligation, the supplemental contribution rate imposed would be reduced to 0%. Effective July 1, 2022, the state’s contribution rate is 10.828%.

State contribution rates

Effective date	Rate
July 1, 2020	10.328%
July 1, 2021	10.828%
July 1, 2022	10.828%
July 1, 2023, to June 30, 2046	Subject to board determination
July 1, 2046 and thereafter	Revert to base rate ¹

The state contribution rates above include 2.5% for the Supplemental Benefit Maintenance Account. This account was established by Education Code section 22400 to separately manage the annual supplemental payments disbursed in quarterly installments to all benefit recipients whose purchasing power has fallen below 85% of the purchasing power of the initial allowance, as long as funds are available.

The CalSTRS Funding Plan sets the Defined Benefit Program on a sustainable course and ensures a secure retirement for future generations of CalSTRS members. The funding plan offers a reasonable and responsible framework needed to uphold the state’s promise to California’s educators.

¹ From July 1, 2046, and thereafter, the rates in effect prior to July 1, 2014, are reinstated, if necessary, to address any remaining unfunded liability.

Appendix 4

Operating Budget by fund¹

CalSTRS administers a hybrid retirement system consisting of a defined benefit pension plan, cash balance and two defined contribution plans, a postemployment benefit plan and a fund to account for ancillary activities associated with various deferred compensation plans and programs. The Teachers' Retirement Law (California Education Code section 22000 et seq.), as enacted and amended by the California Legislature and the Governor, established these plans and CalSTRS as the administrator. Accordingly, the 2022–23 Operating Budget is administered through the TRF, TDCF and the THBF.

Teachers' Retirement Fund

(dollars in thousands)

Budget category	Actual 2020–21	Budget 2021–22	Budget 2022–23	Amount change
Salaries	\$117,161	\$154,354	\$167,703	\$13,349
Benefits	54,409	69,636	75,467	5,831
OE&E	81,496	98,874	128,503	29,629
Total	\$253,066	\$322,864	\$371,673	\$48,809

Teachers' Deferred Compensation Fund

(dollars in thousands)

Budget category	Actual 2020–21	Budget 2021–22	Budget 2022–23	Amount change
Salaries	\$487	\$629	\$754	\$125
Benefits	305	403	468	65
OE&E	819	1,184	707	(477)
Total	\$1,611	\$2,216	\$1,929	(\$287)

Teachers' Health Benefits Fund

(dollars in thousands)

Budget category	Actual 2020–21	Budget 2021–22	Budget 2022–23	Amount change
Salaries	\$284	\$361	\$372	\$11
Benefits	181	197	242	45
OE&E	168	276	279	3
Total	\$633	\$834	\$893	\$59

1. Additional information regarding the Operating Budget by fund is provided in the "Financial summaries" section.

Appendix 5

Operating Budget by appropriation

The following table displays the 2022–23 Operating Budget and key differences compared to the annual Budget Act.¹ The Budget Act is primarily composed of the annual Teachers’ Retirement Fund appropriation and the annual ITPF appropriations.

The Budget Act does not include direct transfers, other continuous appropriations, the Teachers’ Deferred Compensation Fund or the Teachers’ Health Benefits Fund. Direct transfers include the pro rata assessment and the **SB 84 (Chapter 50, Statutes of 2017)**² loan payment, which are assessed by the Department of Finance for all state agencies. Other continuous appropriations are primarily composed of budget for fiduciary insurance, investment audits and the Sustainable Investment and Stewardship Strategies division.

Operating Budget by appropriation

(dollars in thousands)

	2022–23
Budget Act	
Teachers’ Retirement Fund support appropriation	\$310,520
Information Technology Project Funding appropriation	18,500
Total Budget Act:	329,020
Direct transfers	17,530
Other continuous appropriations	25,123
Total Teachers’ Retirement Fund Budget:	371,673
Teachers’ Deferred Compensation Fund	1,929
Teachers’ Health Benefits Fund	893
Total 2022-23 Operating Budget:	\$374,495

1 Additional information regarding the annual Budget Act can be found on the [Department of Finance's website](#).

2 SB 84 authorized a \$6 billion supplemental payment from the state’s Surplus Money Investment Fund to the California Public Employees’ Retirement System to reduce long-term retirement contribution rates for all state agencies. Effective 2018–19, all state agencies are required to begin repayment of the loan.

Appendix 6

Impact of California’s economic challenges on CalSTRS’ budget

In 2020–21, as part of the state’s response to address the fiscal impact of the global COVID-19 pandemic on California’s economy, the administration commenced immediate measures to mitigate the financial impact to the state, pursuant to the Budget Act of 2020 (**AB 89, Chapter 7, Statutes of 2020**). This included mandatory reductions to statewide administrative expenditures, including changes to employee compensation and a permanent operational efficiency reduction in most state operational expenditures. Notable changes to employee compensation included, but were not limited to: a mandatory two-day, or 16 hours a month, reduction in pay equating to approximately 9.23%, administered through a Personal Leave Program for fiscal years 2020–21 and 2021–22; suspension of a 2.5% general salary increase that would have been effective on July 1, 2020, until July 1, 2022; and the associated impact of these reductions on benefits.

Subsequently, the state’s financial status improved due to the higher-than-anticipated tax revenue and new federal funding from multiple stimulus bills. Pursuant to the Budget Act of 2021 (**AB 128, Chapter 21, Statutes of 2021**), effective July 1, 2021, the 9.23% reduction in pay was eliminated, and eligible employees received a 4.55% general salary increase. This increase accounts for the previously negotiated 2.5% salary increase that was originally scheduled for July 1, 2020, the 2.0% salary increase already scheduled for July 1, 2021, and a compounded percentage of 0.05%.¹

As a result of these directives, the 2021–22 board-approved Operating Budget was revised from \$309.8 million, to \$325.9 million. This reflects an overall net change of \$16.1 million, or 5.2%, relative to the original board approved Operating Budget.

CalSTRS revised 2021–22 Operating Budget

(dollars in millions)

	Approved 2021–22	Operational efficiency	Employee compensation	Revised 2021–22	Amount change	Percent change
Total	\$309.8	(\$2.4)	\$18.5	\$325.9	\$16.1	5.2%

¹ Adjustments to employee compensation listed herein are based upon the current **Side Letter of Agreement** for the SEIU, Local 1000, dated June 4, 2021.

Glossary

Appropriation

Authorization for an agency to make expenditures or create obligations from a specific fund for a specific purpose. It is usually limited in amount and period of time during which the expenditure is to be recognized.

Audit

Typically, a review of financial reports or performance activity (such as of an agency or program) to determine conformity or compliance with applicable laws, regulations, and/or standards. The state has three central organizations that perform audits of state agencies: the State Controller's Office, the Department of Finance, and the California State Auditor. Many state departments also have internal audit units to review their own internal functions and program activities.

Augmentation

An increase to a previously authorized appropriation. This increase can be authorized by Budget Act provisional language, control sections or other legislation. In addition, increases can also be authorized by the Teachers' Retirement Board for items funded from continuous appropriations. Generally, a budget revision or an executive order is processed to implement the increase.

Authorized positions

Represents the number of full-time equivalent staff authorized for an organization. Authorized positions are reported to, and reconciled with, the State Controller's Office.

Balanced budget

A balanced budget is a budget in which revenues are equal to expenditures. Thus, neither a budget deficit nor a budget surplus exists. More generally, it is a budget that has no budget deficit, but could possibly have a budget surplus.

Blanket positions

Blanket positions are established to the extent they can be funded within existing appropriation authority; serve as a budgetary policy that provides staffing flexibility for urgent, one-time or limited-duration operational needs; and allow departments to temporarily hire above total authorized positions. Blanket positions do not require formal authorization by the board, Department of Finance or the Legislature.

Branch

A functional business area within the organization.

Business area

Subunit of a branch.

Budget

A plan of operation expressed in terms of financial or other resource requirements for a specific period of time.

Budget Act

Legislation authorizing state programs to expend appropriated funds for the purposes stated in the Governor's budget and amended by the Legislature.

Budget year

The upcoming fiscal year, beginning July 1 and ending June 30, for which the Governor's budget is submitted.

Budgetary savings

The unencumbered balance of an appropriation that continues to be available for expenditure in years subsequent to the year of enactment. Also known as a carryover.

Department of Finance

A fiscal control agency serving as the Governor's chief fiscal policy advisor. DOF is accountable for the long-term economic sustainability and responsible resource allocation through the state's annual financial plan.

Fund balance

For budgetary purposes, the excess of a fund's resources over its expenditures. For accounting purposes, the balance available in a fund is the net of assets over liabilities and reserves that are available for expenditure.

Generally Accepted Accounting Principles

Generally Accepted Accounting Principles refers to the standard framework of guidelines for financial accounting. They are the common set of accounting principles, standards and procedures that companies must follow when they compile their financial statements and are the commonly accepted ways of recording and reporting accounting information.

Governmental Accounting Standards Board

The Governmental Accounting Standards Board establishes accounting and financial reporting standards for state and local governments in the United States that follow Generally Accepted Accounting Principles.

Governor's Budget

The recommendations and estimates for the state's financial operations for the budget year that the Governor presents to the Legislature by January 10 of each year. This document also displays the actual revenues and expenditures of the state for the immediate past year, updates estimates for the current year revenues and expenditures, and projects revenues and expenditures for the upcoming budget year.

Liquidation

Issuance of a payment for an obligation.

Merit salary adjustment

CalSTRS generally augments organizational budgets to account for periodic increases to staff salaries. Pursuant to collectively bargained employment contracts and the California Department of Human Resources, personnel generally receive a salary increase of 5% per year up to the upper salary range of the classification.

Operating expenses and equipment

A category of a budget that includes expenditures such as general expenses, printing, communication, travel, data processing, equipment and accessories for the equipment.

Other postemployment benefits

Other postemployment benefits are benefits (other than pensions) that state and local governments in the United States provide to their retired employees. These benefits principally involve healthcare benefits, but also may include life insurance, disability benefits, legal and other services.

State Controller's Office

A fiscal control agency responsible for the accountability and disbursement of the state's financial resources.

Unfunded liability

The unfunded liability refers to the amount of additional actuarial assets needed on the valuation date to meet the expected liabilities of the plan incurred from members' past service. The term "shortfall" is also used to describe an unfunded liability, which is also known as a funding gap.



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HOW WILL YOU SPEND YOUR FUTURE?