

2023-24

**ANNUAL
BUDGET**

CALIFORNIA STATE TEACHERS'
RETIREMENT SYSTEM

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.



July 3, 2023

Chief financial officer's letter of transmittal

As the largest educator-only pension fund in the world, our membership has grown to more than 1 million members for the first time in CalSTRS history. With a dedicated focus on transparency and accountability, we continue to strengthen our system through embracing a diversity of ideas and practices to fulfilling our mission of securing the financial future and sustaining the trust of California's educators.

In 2023–24, we will continue to make progress toward our 2022–25 Strategic Plan. Our strategic plan is a testament to our members that a safe, secure and sound trust fund will be there to serve their needs in retirement. The plan has three goals that embody the organization's commitment to being a well-governed, financially sound trust fund; leading innovation and managing change; and continuing to integrate sustainability throughout the organization's culture, policies and practices. Aligned with these priorities, CalSTRS' 2023–24 budget includes resources for the continued implementation of the Pension Solution Project and enterprisewide strategic support activities to advance CalSTRS' 2022–25 Strategic Plan goals and initiatives. Our total 2023–24 budget is \$799.5 million, including 1,370 authorized positions.

Building and supporting a robust technology infrastructure platform is a critical component of delivering quality services to CalSTRS members and their beneficiaries, employers, and various stakeholder communities. On that basis, we continue efforts to replace our legacy pension administration system with modern functionality through the Pension Solution Project. Our commitment to the success of this project is reflected in our 2023–24 budget, which includes a one-time funding increase of \$87.2 million for internal and external resources to continue system implementation activities. This multiyear effort will increase our ability to respond to customer and business needs, gain long-term operational efficiencies, improve internal controls, and enhance services for our members and their beneficiaries.

Our 2023–24 budget includes an increase of \$8.6 million for 56 additional authorized positions to advance CalSTRS' strategic plan goals and initiatives and to support enterprisewide growth. These resources will further enhance the development, expansion, and continuous improvement efforts of programs and processes across the organization to more efficiently service our members. Our 2023–24 budget also includes an additional \$8.7 million to support ongoing maintenance and operation of our cloud data center platform and various technology enhancements.

Maintaining a financially sound retirement system remains our primary goal. During the second half of 2021–22, the financial markets experienced severe volatility, generating a time-weighted investment loss in our investment portfolio of -1.3%, net-of-fees for fiscal year ended June 30, 2022. However, with our historic investment return of 27.2% in 2020–21, we still expect full funding of our system to occur by 2046. While we remain on track for full funding, we will maintain a forward-looking approach to monitor risks to the funding plan and financial health of the fund as we continue diligently working toward the long-term sustainability and integrity of the fund.

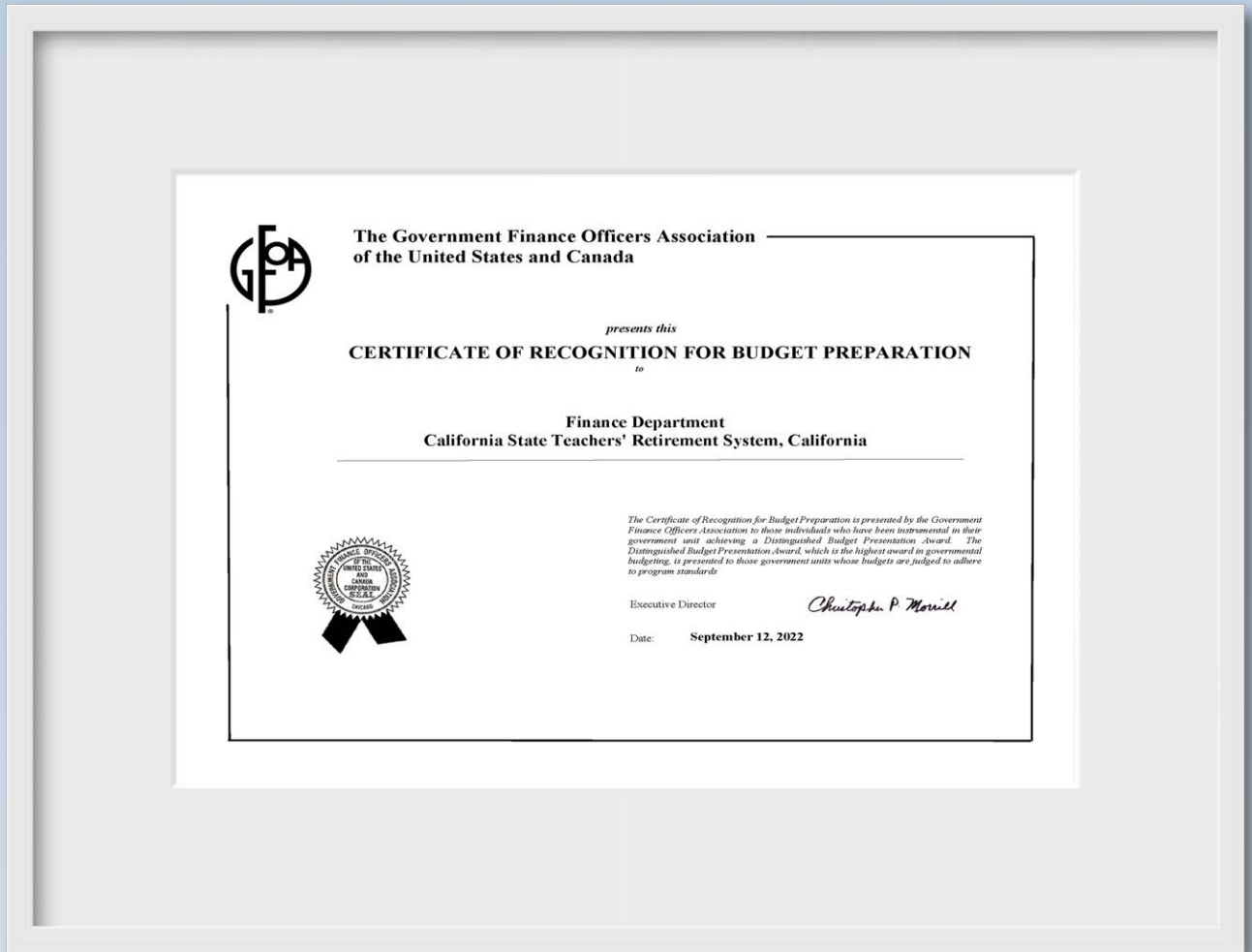
As part of our efforts to ensure a well-governed, financially sound trust fund, our approach is the continued execution of the Collaborative Model to strengthen our portfolio value and seek opportunities for investment cost savings. The Collaborative Model is an investment strategy to manage more assets internally to reduce costs, control risks and increase expected returns, and leverage our external partnerships to achieve similar benefits. Our 2023–24 budget includes \$9.9 million and 21 authorized positions for the third year of scheduled expenditures to continue implementation of the Collaborative Model. This multiyear effort will support a strong investment portfolio, all for the benefit of California’s public school educators and their beneficiaries.

Remaining cognizant of CalSTRS’ long-term financial horizon helps us prepare for the future, so we can collectively contribute in more meaningful and purposeful ways. With this vision of success, we remain focused on our mission, helping to guide our actions toward a strong retirement system to continue serving our members for years to come.

Respectfully submitted,

A handwritten signature in cursive script that reads "Julie Underwood".

Julie Underwood
Chief Financial Officer
CalSTRS



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 2022–23 Annual Budget presentation. This is the fourth 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 year 2022–23. We believe our 2023–24 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 investment portfolio assets of \$301.6 billion as of June 30, 2022, 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 1 million 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 the "Departmental information" section.

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

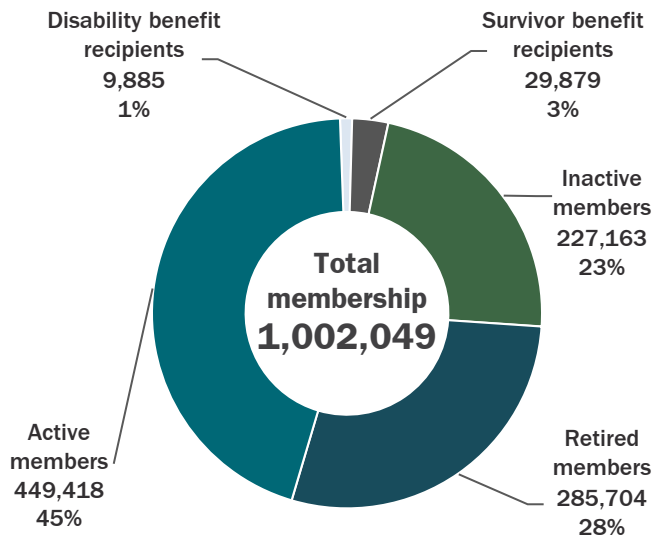
Our history

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 1 million 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** CalSTRS adopts a pledge to achieve net zero greenhouse gas emissions across the CalSTRS Investment Portfolio by 2050 or sooner.
- 2022** For the first time, CalSTRS serves more than 1 million members and their beneficiaries.

Services to members and employers

2022 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, telephone and in-office assistance. Members have an opportunity to meet benefit specialists by appointment or seek assistance with general questions on a walk-in basis. Member service center staff also receive and review forms and provide CalSTRS forms and publications.

Member outreach and communication

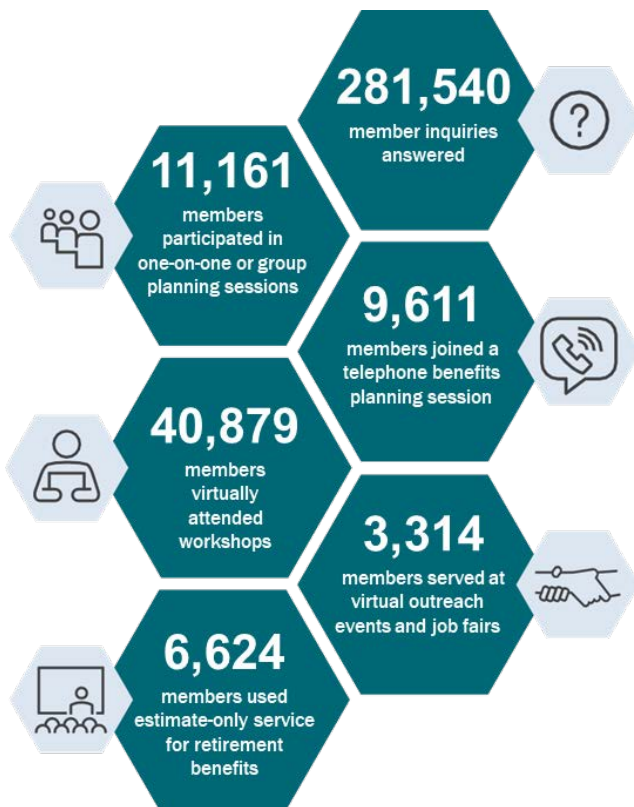
Every year, tens of thousands of members take advantage of these services, as well as the opportunity to walk into our member service centers and receive personal assistance related to their retirement benefits. Members may contact a CalSTRS Contact Center agent by phone, secure online message or written 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 2021–22

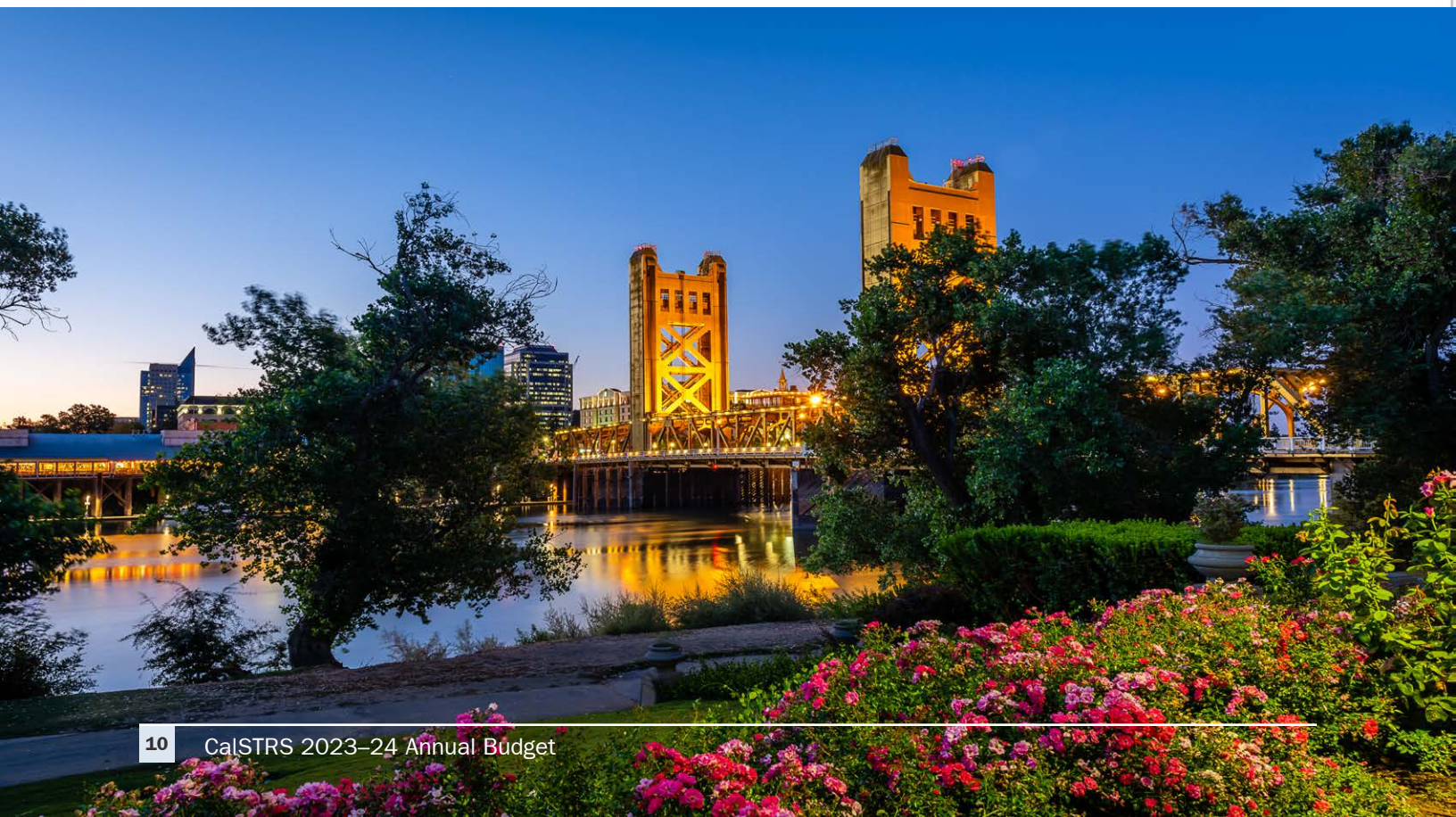


During fiscal year 2021–22, following guidance from local public health agencies and the State of California due to the COVID-19 pandemic, CalSTRS member service centers reopened for select services in October 2021. A total of 3,101 members took advantage of the opportunity to walk in and receive immediate assistance.

In fiscal year 2021–22, 61,651 members attended individual or group benefits planning sessions or workshops in person and virtually. An additional 3,314 members received services at virtual outreach events and job fairs.

Another convenient service for members is the estimate-only service, which during fiscal year 2021–22, provided 6,624 members with updated retirement benefit estimates. CalSTRS continues to focus on providing services that increase accessibility for members, reflect individual member needs and increase member self-education.

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 platform in 2021-22



2%

+720 new Facebook followers



4%

+429 new Twitter followers



18%

+1,449 new LinkedIn followers



8%

+153 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

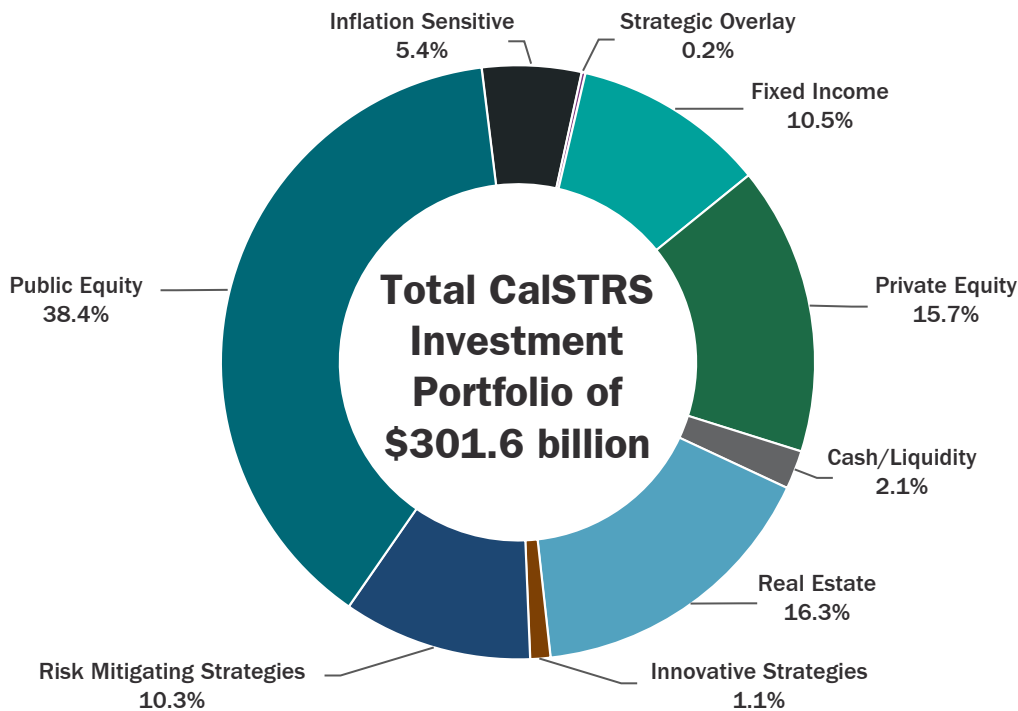
CalSTRS is a long-term investor, and ultimately, our goal is to generate returns to meet the retirement benefits of our members and their beneficiaries. We honor this responsibility with diligence and integrity. Consistent with this vision, and as the trusted fiduciaries of the system, we strive to derive 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 \$301.6 billion as of June 30, 2022, 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, 2022, is provided in the following chart.

CalSTRS asset allocation as of June 30, 2022^{1,2}



¹ Public Equity, Private Equity and Innovative Strategies include Sustainable Investment and Stewardship Strategies public and private investments of \$8.8 billion.

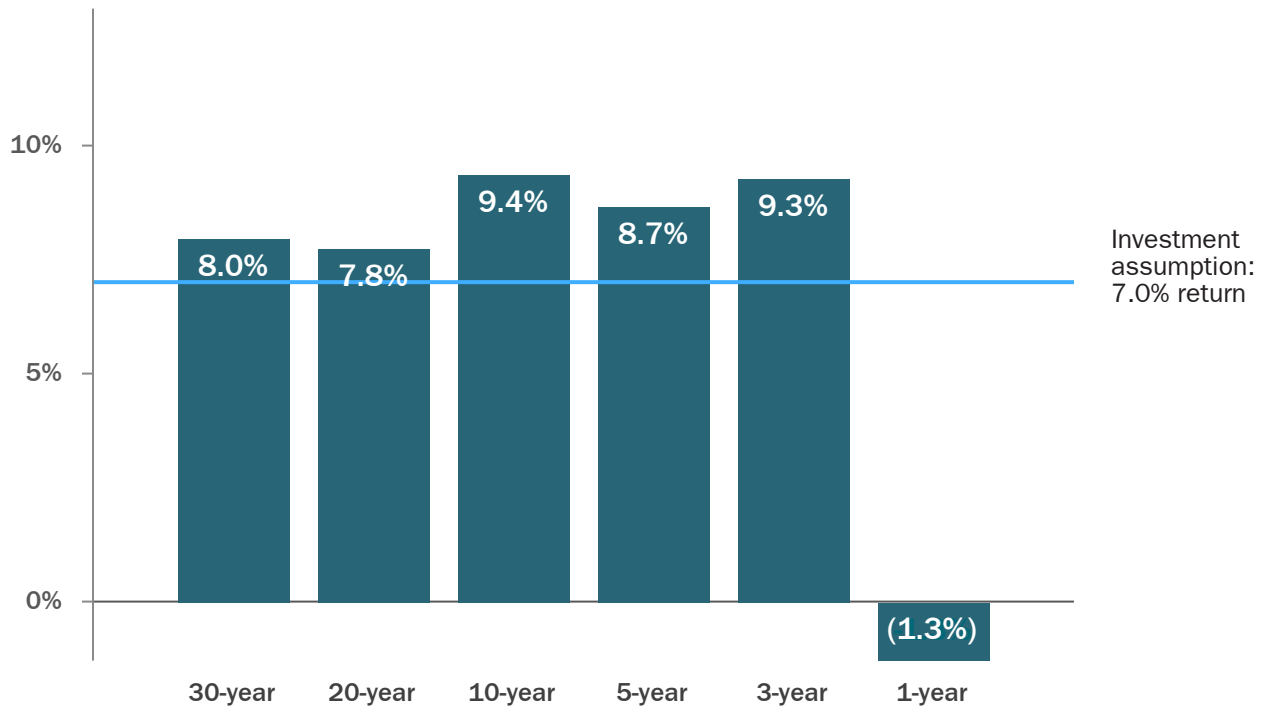
² Public Equity does not include derivatives, which provide additional exposure to Public Equity bringing the Asset Allocation range within policy limits.

Investment performance

The CalSTRS Investment Portfolio generated a time-weighted investment loss of -1.3% net-of-fees, which was lower than the 7.0% assumed actuarial rate of return for funding purposes for the fiscal year ended June 30, 2022. The portfolio decreased by \$7.0 billion over the prior fiscal year, ending with a fund value of \$301.6 billion. However, 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, it looks 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, 2022



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 the 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. Areas of current focus include determining the appropriate balance between managing assets internally and collaborating with external industry leaders to identify higher-return, lower-cost strategies. Additionally, a continued focus is on increasing operational flexibility by recruiting and retaining world-class talent, leveraging technology, and maintaining robust policies and guidelines for prudent decision-making.



Scan QR code to 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.

To support this effort, CalSTRS is implementing the third year of its multiyear internal investment management plan, which provided \$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.

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 Climate 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 and external audit of the financial statements.
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



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



MALIA M. COHEN
State Controller
Ex Officio Member



MICHAEL GUNNING
Public Representative
Term: April 26, 2022 –
December 31, 2025



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



FIONA MA
State Treasurer
Ex Officio Member



WILLIAM PREZANT
Public Representative
Term: January 20, 2023 –
December 31, 2026



JOE STEPHENSHAW
Director of Finance
Ex Officio Member



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

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

Executive staff¹

Executive



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.

CASSANDRA LICHNOCK
Chief Executive Officer

Investments



CHRISTOPHER J. AILMAN
Chief Investment Officer



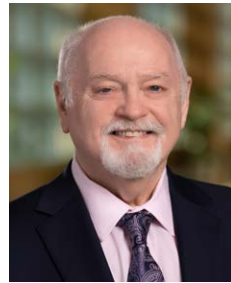
LISA BLATNICK
Chief Operating Officer

Financial Services



JULIE UNDERWOOD
Chief Financial Officer

General Counsel



BRIAN J. BARTOW
General Counsel

Administrative Services



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 three-year strategic plan cycle. 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 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 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 each quarter.

Operations performance reviews

Directors of CalSTRS internal operations report to executives on the status of key performance indicators for their major responsibilities each quarter. This forum also 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 the business area's 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 business plan. In alignment with CalSTRS' mission, vision and strategy, the status of noteworthy accomplishments in 2021–22 for the final year of the 2019–22 Strategic Plan are presented on the following pages.

CalSTRS 2021–22 significant accomplishments

Goal 1 — Financial/Governance: Ensure a well-governed, financially sound trust fund.

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

- Reviewed the board actuarial valuation policy to ensure its provisions remained appropriate and in line with the intent of the funding plan, and recommended changes which were adopted by the board in January 2022.

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

- Updated investment asset class policies to align with the Investment Policy for Mitigating Environmental, Social and Governance Risks, and enhanced the Sustainable Investment and Stewardship Strategies Program and Portfolio Policies.
- Engaged large carbon-intensive companies to reduce emissions.

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

- Continued to manage the portfolio at a lesser comparable cost than peers. The Collaborative Model savings report concluded that approximately \$309 million in investment costs was saved in 2020 and \$781 million was saved going back to 2017.
- Continued to explore opportunities to effectively communicate investment cost trends for asset classes, including capture ratio analysis, as it relates to the CalSTRS Collaborative Model and attribution of cost drivers.

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

- Implemented Collaborative Model strategies into all asset classes.
- Level of internal investment management increased to 64% of total assets under management, which is above the board's target of 45%.

Objective E: Enhance board meeting effectiveness and efficiency.

- Post-meeting evaluations reflected an increase in self-reported efficiency and effectiveness, with 96% of all responses selecting "agree" or "strongly agree" that board meetings are effective in administering the fund and that the meeting was run efficiently.

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.

- Implemented Functional Rollout 1—a nonproduction environment to provide exposure to employers and employer support staff to the new file formats and submission processes.
- Migrated Functional Rollout 2 functionality into the Employer Readiness Environment, providing employers a near-production environment to further familiarize them with the new system.

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

- Implemented a governance, risk and compliance product to automate, improve and streamline information security risk assessments of technology systems and third-party vendors.

Objective C: Enhance business resiliency capabilities.

- Successfully migrated 30 planned business systems to a cloud data center solution, enhancing business resiliency capabilities.

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

- Deployed secure, seamless remote access to improve efficiency for the hybrid workforce.
- Migrated 30 applications enabling easy accessibility, anywhere and anytime, over the internet.
- Implemented new collaboration tools for task management and whiteboarding, and to enable fast and reliable information sharing among team members.

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 multi-faceted communications and outreach plan to educate members, stakeholders, policymakers and the public on the organization's goal to achieve net zero greenhouse gas emissions across the investment portfolio by 2050 or sooner.

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

- Established a new CalSTRS advisory group to include employer stakeholders to address opportunities to provide education and guidance, and to receive feedback.

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

- Developed the employer reporting to final benefit project involving dozens of staff across multiple business functions taking a comprehensive approach to driving quality in employer reporting.

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

- Engaged on social media, publishing 455 posts supporting retirement readiness on social media for a total of more than 338,525 impressions, and added 5,176 new subscribers to Pension Sense Blog email list.
- Delivered new webinars on New Cash Balance, Consolidation of Benefits and Additional Income Sources for Part-time Educators, who have unique financial considerations.

Objective E: Grow CalSTRS Pension2 participation.

- Implemented a statewide coverage model which resulted in faster response times for members, stronger registrant-to-attendee conversion rates, improved coverage and synergy with staff due to increased hybrid networking.
- Experienced strong growth through targeted marketing campaigns and member education events to secure rollover and exchange dollars into the Pension2 Program.

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.

- Finalized the reassessment of mission critical positions as part of succession planning. Finalized position profile action plans for each identified position.
- Modified and shifted education development opportunities to computer-based training or virtual offerings.

Objective B: Improve business processes and reduce costs.

- Implemented process improvements in Human Resources, Travel and Procurement through the examination of processes that presented opportunities for streamlining.
- Increased efficiency and strengthened internal controls surrounding the production of the annual financial report. Automated data entry, restricted editing rights, and performed validation and cross-referencing to ensure data consistency.

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

- Engaged employees through access to computer-based training modules on the Pension Administration Learning Management System.
- Deployed disaster recovery solution for CalSTRS' Contact Center to enhance business resiliency capabilities, and implemented a governance, risk and compliance solution to automate Information Security Office business processes in response to a changing work environment from telework to hybrid work environment.

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

- Engaged a diversity, equity and inclusion industry expert to conduct an assessment, make recommendations and create a roadmap for CalSTRS. Participated in diversity boards and workgroups including CFA Institute Inclusion and Diversity Steering Committee, TOIGO Board of Directors, Milken Institute DEI in Asset Management Executive Council and ILPA DEI Advisory Council.

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 the organization's 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.

The 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 highlights

Addressing the existing unfunded liability continues to be at the forefront of CalSTRS' 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, 2022, (released in May 2023) actuarial valuation of the Defined Benefit Program, which reflects a steady improvement in the funded status. The funded ratio—the amount of assets on hand to pay for obligations—improved from 73.0% to 74.4%, and the unfunded liability decreased from \$89.7 billion as of June 30, 2021, to \$88.6 billion as of June 30, 2022. 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 the risk from future investment returns falling short of the assumed actuarial rate of return. Other risks include lower than anticipated growth in future payroll, possibly as a result of decrease in the size of the active membership.

Significant changes in the past year

The significant changes experienced in the past year included volatile financial markets in the second half of fiscal year 2021–22 with U.S. equity markets down more than 20%. Other significant changes include a high inflation rate of 8.3% in California during the fiscal year, and an increase in active members returning to the levels seen two years ago, resulting in total payroll increase by about 6%, which is more than the assumed 3.5% annual growth.

Investment return

The CalSTRS Investment Portfolio generated a time-weighted investment loss of -1.3%, net-of-fees for fiscal year ended June 30, 2022.

Although the return was negative, many retirement systems in the U.S. reported returns ranging between -5% to -10% in the same period. Despite the investment loss experienced by CalSTRS in 2021–22, CalSTRS remains slightly ahead of schedule in its goal for the Defined Benefit Program to achieve full funding by 2046.

Contribution rates

The CalSTRS Funding Plan provides the board with the ability to adjust the state's contribution rate by 0.5% of payroll each year. For the second year in a row, the actuarial valuation has determined that the state's contribution rate could be decreased by 0.5% of payroll. This decrease is the result of the large investment return in fiscal year 2020–21. However, at the May 2023 meeting, the board voted to keep the state supplemental contribution rate at the existing level of 6.311% of payroll. This will provide a more stable rate, improve funding levels, and reduce risk in the event of future adverse investment outcomes, ensuring the state remains on the path to eliminate its share of CalSTRS' unfunded liability by 2046.

Effective fiscal year 2021–22, the board has authority to adjust the employer supplemental contribution rate pursuant to the CalSTRS Funding Plan. The board can adjust the employer supplemental contribution rate up or down by a maximum of 1% of payroll in a single year. Based on the results of the June 30, 2022 actuarial valuation, an employer supplemental contribution rate of 10.231% was calculated to be sufficient in fiscal year 2023–24 for the employers to eliminate their share of the unfunded actuarial obligation by 2046. However, during the May 2023 board meeting, the board voted to keep the supplemental employer contribution rate at 10.850% to maintain stability in the employer contribution rate going forward, improve funding levels quicker and reduce the likelihood the board may have to raise the employer rate in the future.

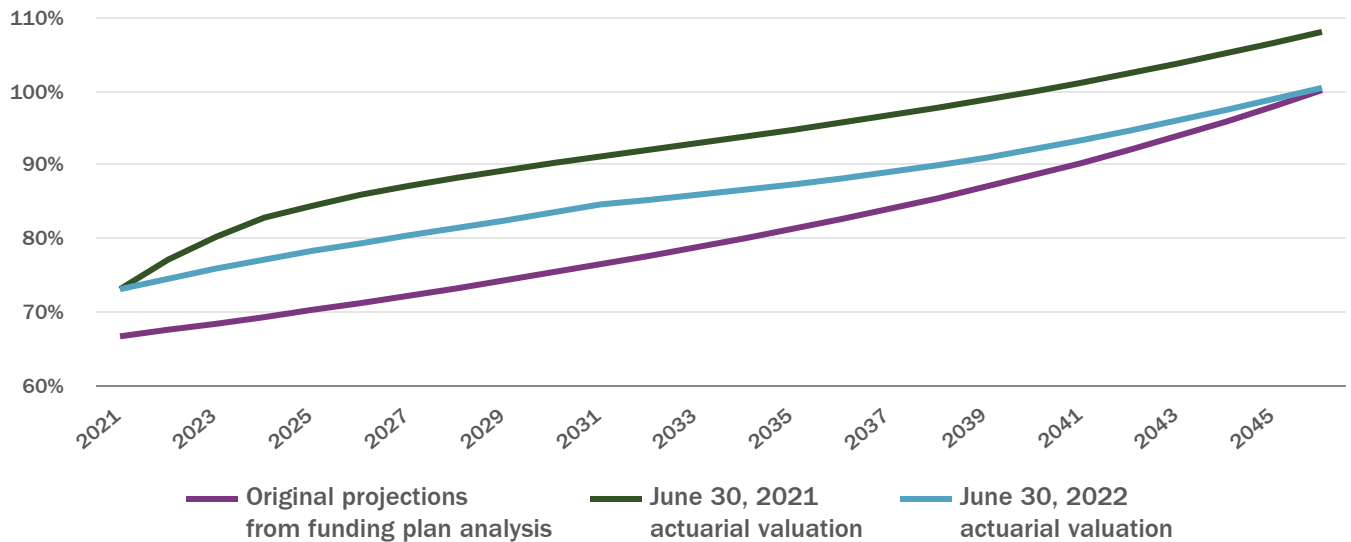
Member demographics

After two years of declines in the number of active teachers participating in the Defined Benefit Program, the number of active teachers increased by about 20,000 in 2021–22. This contributed to the number of active members from 429,000 to 449,000, returning to the levels before the COVID-19 pandemic. 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 that were expected when the funding plan was adopted in 2014, to the funding levels in the June 30, 2021, actuarial valuation and the revised projected funding levels reflecting last year’s investment loss as part of the June 30, 2022, actuarial valuation. As shown below, although funding levels are now projected to be lower than anticipated in the June 30, 2021 actuarial valuation, full funding is still expected to occur by 2046. When compared to the original funding level projections at the time the funding plan was adopted in 2014, CalSTRS is slightly ahead of schedule. The projections assume that the fund will meet a 7.0% investment return and payroll growth of 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.

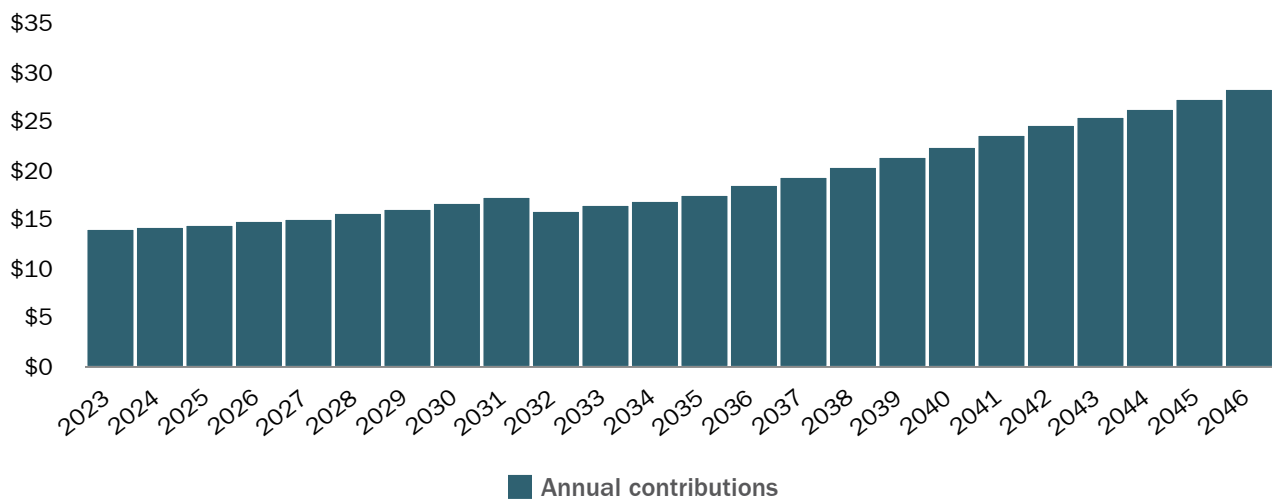
CalSTRS has adopted a policy to perform a review of actuarial assumptions every four years. The next formal review is expected to be presented to the board in January 2024. Even though actuarial assumptions are formally reviewed every four years, CalSTRS constantly monitors the appropriateness of the 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 returns. Over the last 30 years, about 61.9% of revenues have come from investment returns. 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

Projected contribution revenue
(dollars in billions)



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

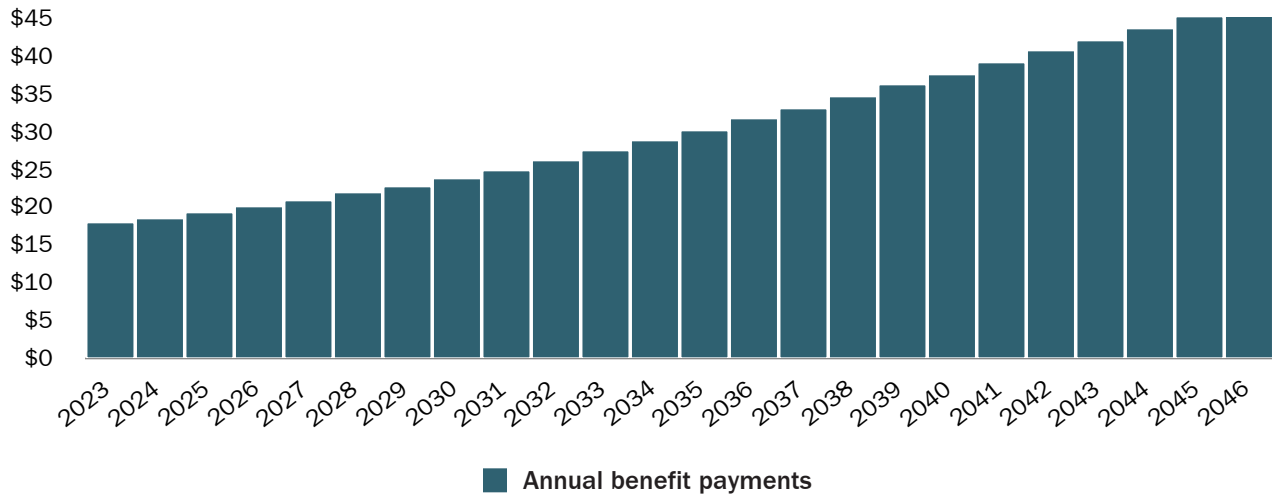
Expenses

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 4.2% 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

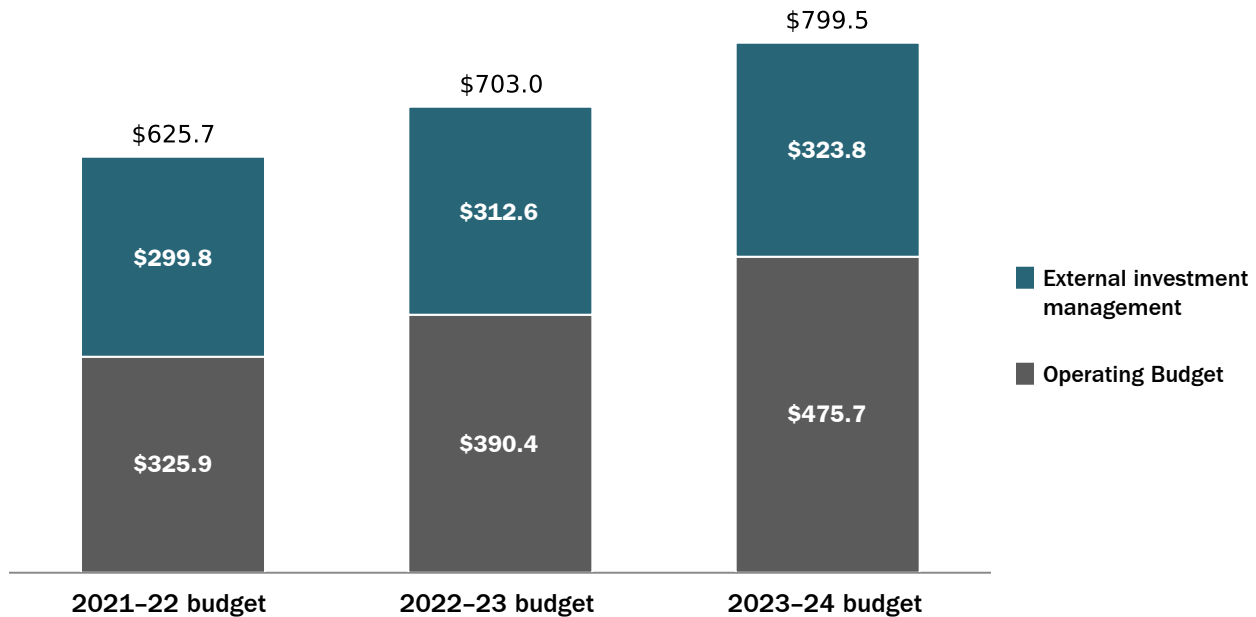
CalSTRS' 2022–25 Strategic Plan lays out a set of goals and measurable objectives that demonstrate how our mission and vision will advance through 2025. This task is a long-term endeavor, requiring comprehensive and sustainable solutions for today and many years to come. The CalSTRS 2023–24 Annual Budget incorporates these goals and objectives by developing a detailed operational and financial plan to deliver on annual and long-term objectives and targets.



The 2023–24 Annual Budget fosters continued efforts to replace our legacy pension administration system with modern functionality, enterprisewide strategic support activities to advance CalSTRS’ 2022–25 Strategic Plan goals and initiatives and enterprisewide growth. Highlights include funding increases for the Pension Solution Project to continue 2023–24 system implementation activities, 56 authorized positions to address workload management across the organization, and various technology service contracts. Moreover, this budget includes a funding increase for the third 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, and the reversal of one-time 2022–23 contract costs.

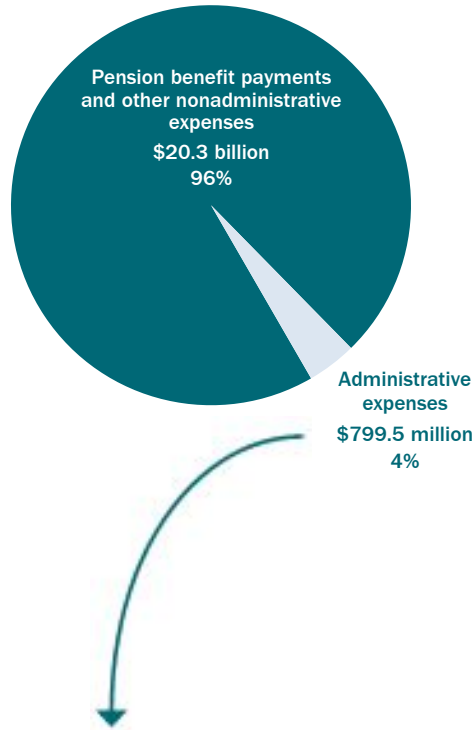
CalSTRS’ 2023–24 total budget is \$799.5 million and includes 1,370 authorized positions. Of this amount, \$323.8 million is for external investment management,¹ and \$475.7 million represents CalSTRS’ Operating Budget. This reflects a total net Operating Budget increase of \$85.3 million, or 22.0%, relative to the 2022–23 Operating Budget.

CalSTRS 2021–22, 2022–23 and 2023–24 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.

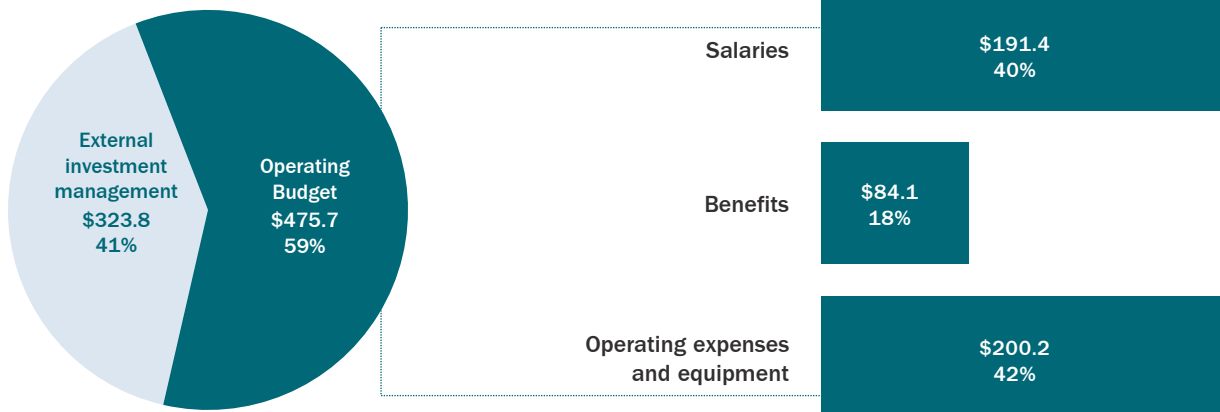
**CalSTRS 2023-24
total budgeted expense breakout**



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

Administrative expenses account for approximately 4% of CalSTRS' total expenses and represent CalSTRS' total budget.

**CalSTRS total 2023-24 budget
(dollars in millions)**



The following table provides a summary of CalSTRS' prior year actual expenditures, the 2022–23 and 2023–24 total budget, and highlights the amount change by budget category between fiscal years 2022–23 and 2023–24.

Three-Year Overview^{1,2,3,4}

(dollars in thousands)

Budget category	Actual 2021–22	Budget 2022–23	Budget 2023–24	Amount change
Operating Budget				
Salaries	\$142,096	\$169,097	\$191,434	\$22,337
Benefits	70,307	71,314	84,108	12,794
Operating expenses and equipment				
General expenses	15,171	33,070	35,069	1,999
Consulting and professional services	25,723	60,531	121,433	60,902
Facilities operations	8,903	33,943	20,478	(13,465)
Central administrative services	14,856	14,747	14,723	(24)
Data processing and storage	14,627	7,658	8,458	800
Total Operating Budget	291,683	390,360	475,703	85,343
External investment management	245,701	312,570	323,778	11,208
Total budget	\$537,384	\$702,930	\$799,481	\$96,551
Percent change				13.7%

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

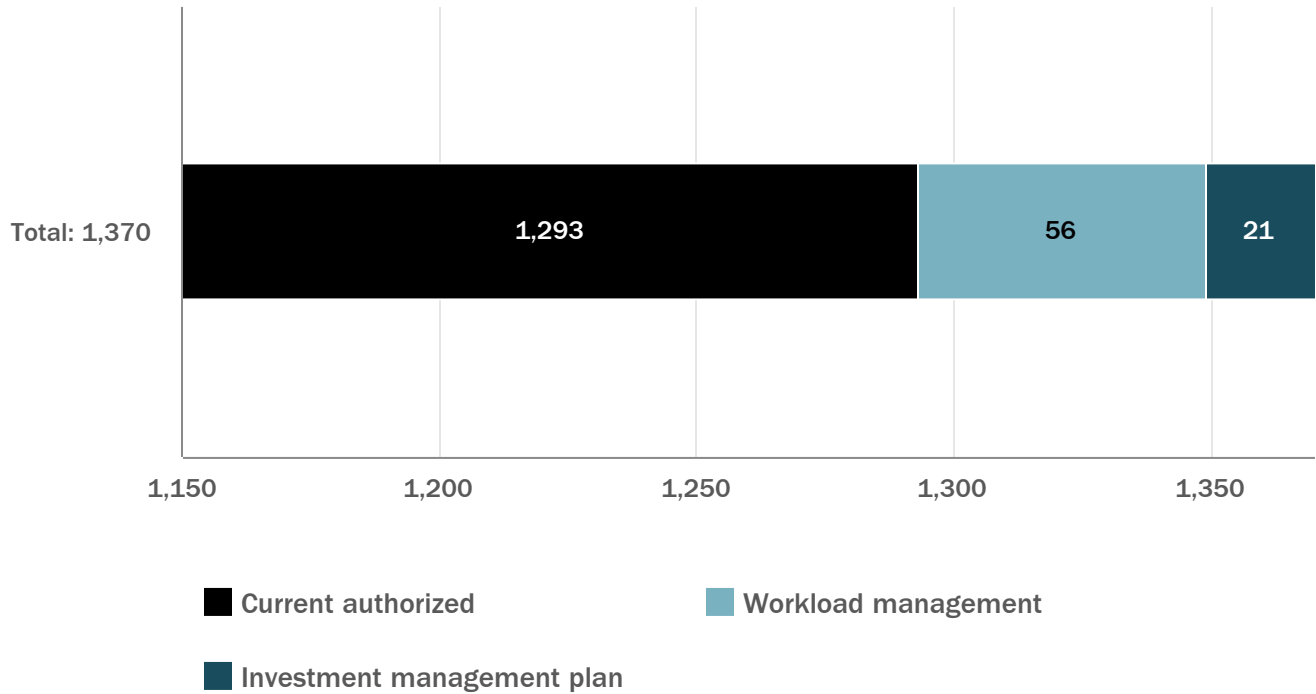
² The 2022–23 board-approved Operating Budget was revised in the amount of \$15.9 million to continue system implementation activities for the Pension Solution Project. Additional information is provided in the September 2022, Teachers' Retirement Board Item #4 - Pension Solution Project Update and Budget Adjustment.

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

⁴ The 2023–24 board-approved Operating Budget was revised in the amount of \$87.2 million for the Pension Solution Project. Additional information provided in the March 2023, Teachers' Retirement Board Item #8 - Pension Solution Project Update and Budget Adjustment.

The 2023–24 Operating Budget includes 1,370 total authorized positions, reflecting an increase of 77 authorized positions to CalSTRS’ workforce, or 6%, relative to 2022–23.¹ This includes 56 positions to address workload management across the organization, and 21 positions approved as part of the investment management plan. A breakout of authorized positions by branch is provided in the “Branch information” section.

2023–24 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.

2023–24 Operating Budget changes

The 2023–24 Operating Budget is \$475.7 million and includes 1,370 authorized positions. This reflects a net increase of \$85.3 million, or 22.0%, relative to the revised 2022–23 Operating Budget. The overall net budget change is primarily driven by additional funding to continue system implementation activities for the Pension Solution Project and to support enterprisewide strategic support activities, which includes funding for 56 permanently authorized positions and various technology service contracts for ongoing maintenance and operations and software enhancements. Additionally, the budget includes adjustments for the third year of scheduled expenditures for the continued implementation of the investment management plan, state mandates and a baseline reduction for one-time 2022–23 contract costs for property management services. The following table displays the total net change of \$85.3 million by operational category.

2023–24 Operating Budget changes

(dollars in millions)

Operational category	Amount change
Pension Solution Project	\$71.3
Enterprisewide strategic support	17.3
Investment management plan	9.9
State mandates	0.3
Property management services	(13.5)
Total	\$85.3

Pension Solution Project: \$71.3 million

Consistent with Strategic Goal 2, Objective A, CalSTRS continues to make progress to implement and integrate a highly adaptive pension administration system to modernize transactional capabilities.

In alignment with these priorities, the 2023–24 Operating Budget includes \$87.2 million in one-time budget authority to fund internal and external resources to continue fiscal year 2023–24 system implementation activities for the Pension Solution Project. Funding will be effective July 1, 2023, and will be available for encumbrance or expenditure through June 30, 2025, and for liquidation through June 30, 2027. Additionally, this includes an extension of the existing Pension Solution Project appropriations through June 30, 2025, for encumbrance or expenditure and through June 30, 2027, for liquidation.

The 2023–24 Operating Budget also includes a \$15.9 million baseline reduction for one-time 2022–23 Pension Solution Project funding approved during the September 2022 board meeting to continue system implementation activities in 2022–23. With this adjustment, the total net increase is \$71.3 million. Additional information is provided in the “Capital projects” section.

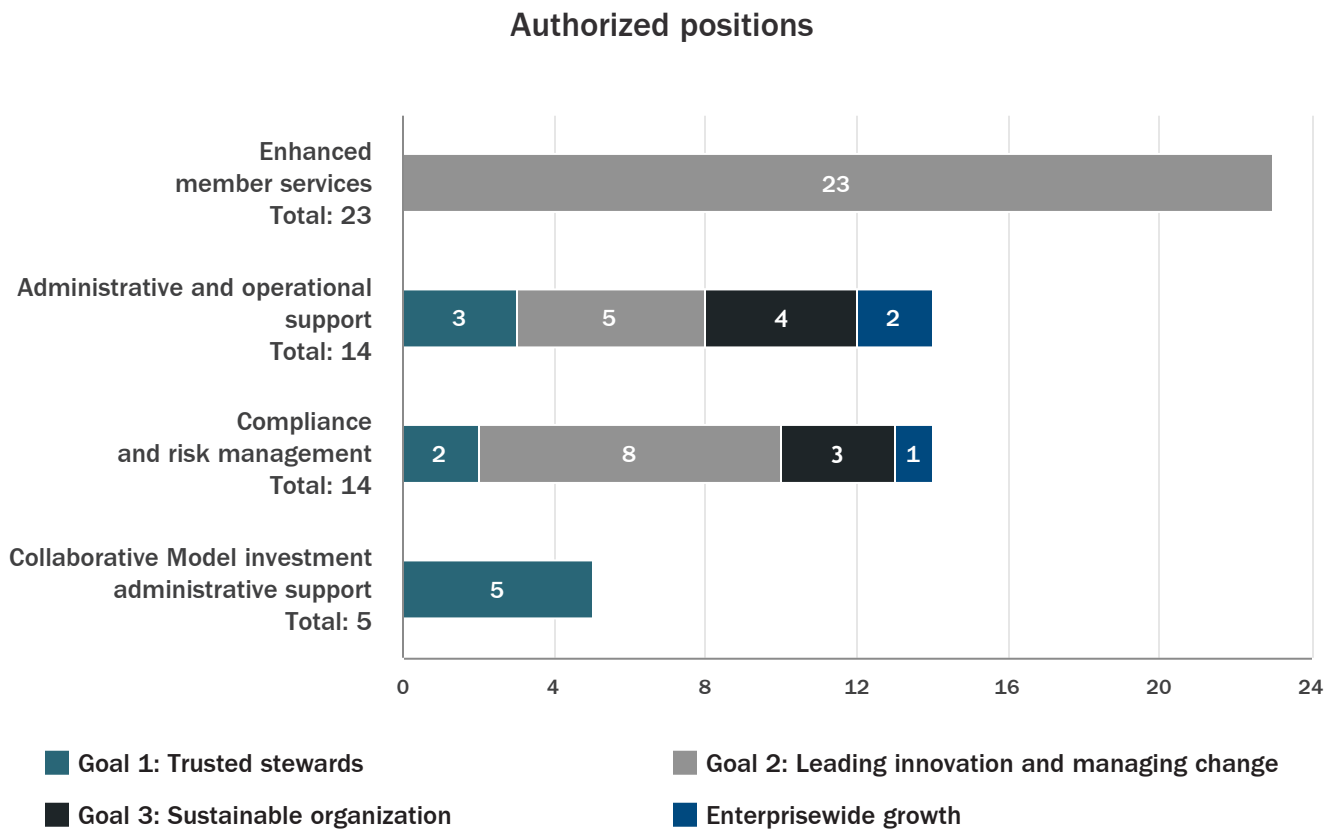
Enterprisewide strategic support: \$17.3 million

The 2023–24 Operating Budget includes an increase of \$17.3 million for enterprisewide strategic support activities to advance long-term strategic plan priorities and annual business plan initiatives. Collectively, this budget will further enhance the development, expansion, and continuous improvement of programs and processes across the organization. This includes \$8.6 million to establish 56 permanently authorized positions and \$8.7 million for technology service contracts.

Workload management: \$8.6 million, 56 positions

The 2023–24 Operating Budget includes \$8.6 million to establish 56 permanently authorized positions. Workload for these positions is primarily associated with enhanced member services, administrative and operational support, compliance and risk management, and Collaborative Model investment administrative support functions.

The following chart displays the 56 authorized positions by function, 2022–25 Strategic Plan goal and enterprisewide growth.



*Enhanced member services:
\$3.3 million, 23 positions*

CalSTRS is committed to providing exceptional service to its members and their beneficiaries and is continuously improving its member service and support functions. In alignment with this objective and consistent with the second goal of the strategic plan—leading innovation and managing change—21 positions will improve existing processes to enhance the reliability and accuracy of member account data and retirement benefit calculations through the Employer Reporting to Final Benefit Project. Two additional positions will address workload functions associated with processing benefit payments for members who have concurrent membership with other retirement systems and benefits that exceed the Internal Revenue Code section 415 limits. These 23 positions will be dispersed across four business areas and will be performing the following key tasks:

- Expand and formalize a pre-benefit member account review process to validate and analyze contribution data submitted by employers for reliability and accuracy prior to benefit inception.
- Expand and formalize quality management functions, which include developing new quality control procedures for employer reporting processes and sampling inquiries and interactions with employers to ensure adherence to defined standards.
- Work with employers to remediate reporting errors resulting from inaccurate member account data and inaccurate reporting of employer and employee contributions.
- Perform complex account analysis and support increased member communication.

*Compliance and risk management:
\$2.5 million, 14 positions*

One of CalSTRS' objectives is to continue to secure and maintain the confidentiality and integrity of data and ensure adherence to compliance requirements. CalSTRS current compliance and risk functions embody various compliance and risk activities at the branch and unit levels. These activities include compliance with laws, policies, procedures and administrative directives for each area. In support of all three goals of the 2022–25 Strategic Plan, and enterprisewide growth, these 14 positions will be dispersed across five business areas to address additional workload functions and enhance existing compliance and risk management processes by performing the following key tasks:

- Manage and oversee procurement compliance functions, including adherence to procurement laws, rules, regulations and policies.
- Perform various tax research and reporting, including processing of tax withholding and 1099s and ensuring compliance with Internal Revenue Service tax laws and regulations.
- Assist with litigation caseload and processing of Public Records Act requests.
- Support the governance, risk and compliance system, which facilitates the tracking and mitigation of governance, risk and compliance items.

*Administrative and operational support:
\$2.0 million, 14 positions*

Enterprisewide administrative and operational support functions play an integral role in maintaining CalSTRS' core business functions as the organization grows. In support of all three goals of the 2022–25 Strategic Plan, and enterprisewide growth, these 14 positions will be dispersed across six business areas to support increased workload function demands across the organization by performing the following key tasks:

- Manage and oversee building operations and facility needs of CalSTRS' Headquarters property, which include the current building and the expansion facility, that is expected to be completed in 2023.
- Oversee organizational change management initiatives through the execution of key priorities in CalSTRS' 2022–25 Strategic Plan.
- Provide support for various production capabilities, including creation of digital and written content for CalSTRS' website, social media and other communications media.
- Provide maintenance and operations for the workplace management system to support a longer-term blended work environment.

Collaborative Model investment administrative support: \$800,000, 5 positions

The CalSTRS 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 alignment with this longer-term initiative and consistent with the first goal of CalSTRS' 2022–25 Strategic Plan—to ensure a well-governed, financially sound trust fund—these five investment administrative support positions for two business areas will assist the Investments Branch with the continued implementation of the Collaborative Model by performing the following key tasks:

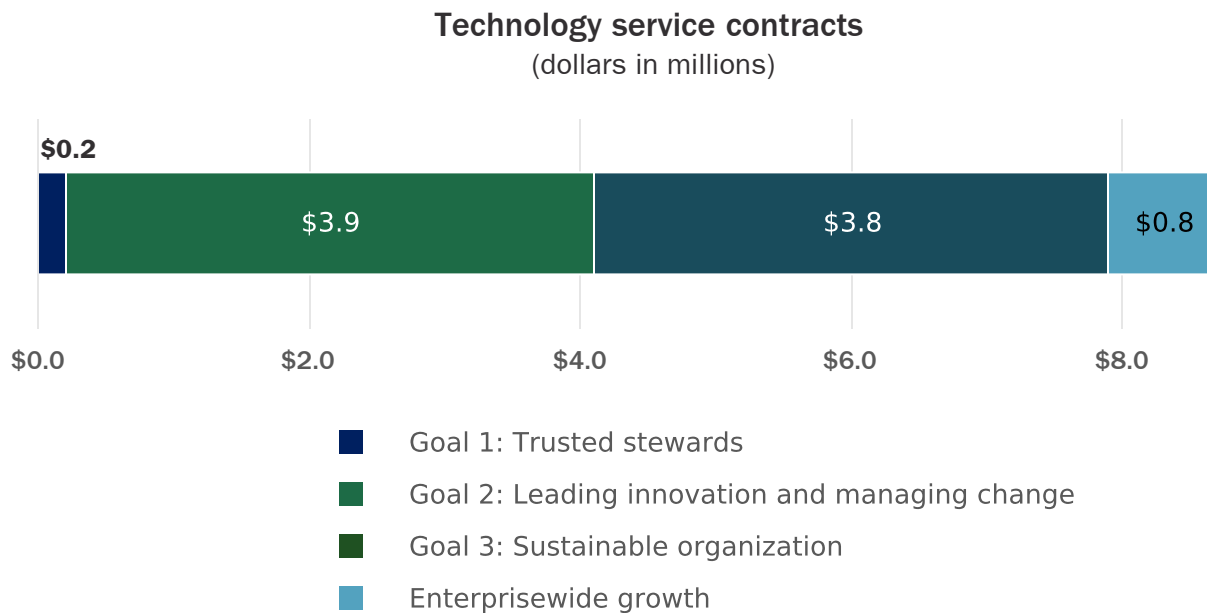
- Provide human resources support functions associated with the overall growth in the Investments Branch.
- Coordinate, plan and manage implementation of investment technology infrastructure.
- Perform data analytics to ensure data integrity and proper organization, storage and cleansing of data.
- Support investment data architecture, ensuring safeguards are in place for data management and analysis.

Technology service contracts: \$8.7 million

The 2023–24 Operating Budget includes an increase of \$8.7 million for technology service contracts to support ongoing maintenance and operation costs for our cloud data center platform and member call center system, back-up power supply units for computing equipment, cybersecurity tools and infrastructure. This funding will also address increases in vendor support as well as implementation and enhancement of various technologies as part of the 2022–25 Strategic Plan.

Continuing to build and support a robust technology infrastructure platform is a critical component of delivering quality services to our members and their beneficiaries, employers and various stakeholder communities. Over the past few years, CalSTRS has experienced significant increases in technology requirements and costs, largely driven by the overall growth in the size and complexity of the organization, and efforts to improve efficiency and innovation throughout the organization.

The chart below displays the \$8.7 million by technology service contracts to the strategic plan goal and enterprisewide growth.



Investment Management Plan: \$9.9 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 “Five-year funding and resource forecast” table below 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.

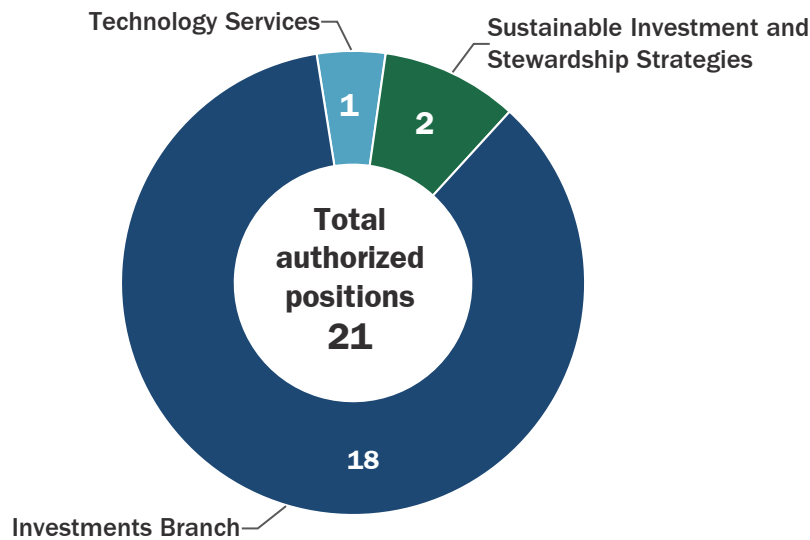
Five-year funding and resource forecast

(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 2023–24 Operating Budget includes the third year of scheduled funding in the amount of \$9.9 million, which includes \$9.8 million for 21 authorized positions and \$60,000 for external investment audit services. The following chart displays the 2023–24 authorized positions by business area.²

2023–24 authorized positions by business area



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.

² Sustainable Investment and Stewardship Strategies is a business area in the Investments Branch.

State mandates: \$276,000

State mandates include a net increase of \$276,000 for fiscal year 2023–24. State mandates are largely associated with nondiscretionary costs, including augmentations to employee compensation for existing personnel and the annual pro rata assessment issued by the Department of Finance.

Employee compensation: \$300,000

Employee compensation adjustments reflect a net increase of \$300,000. This includes an increase of \$4.3 million composed of a general salary increase of 2.5% and merit salary adjustment of 5% for eligible employees. This is partially offset by a reduction of \$4.0 million for the monthly healthcare stipends provided to employees enrolled in a CalPERS health plan that will expire on June 30, 2023.

Pro rata assessment: (\$24,000)

CalSTRS is required by the DOF 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 DOF.

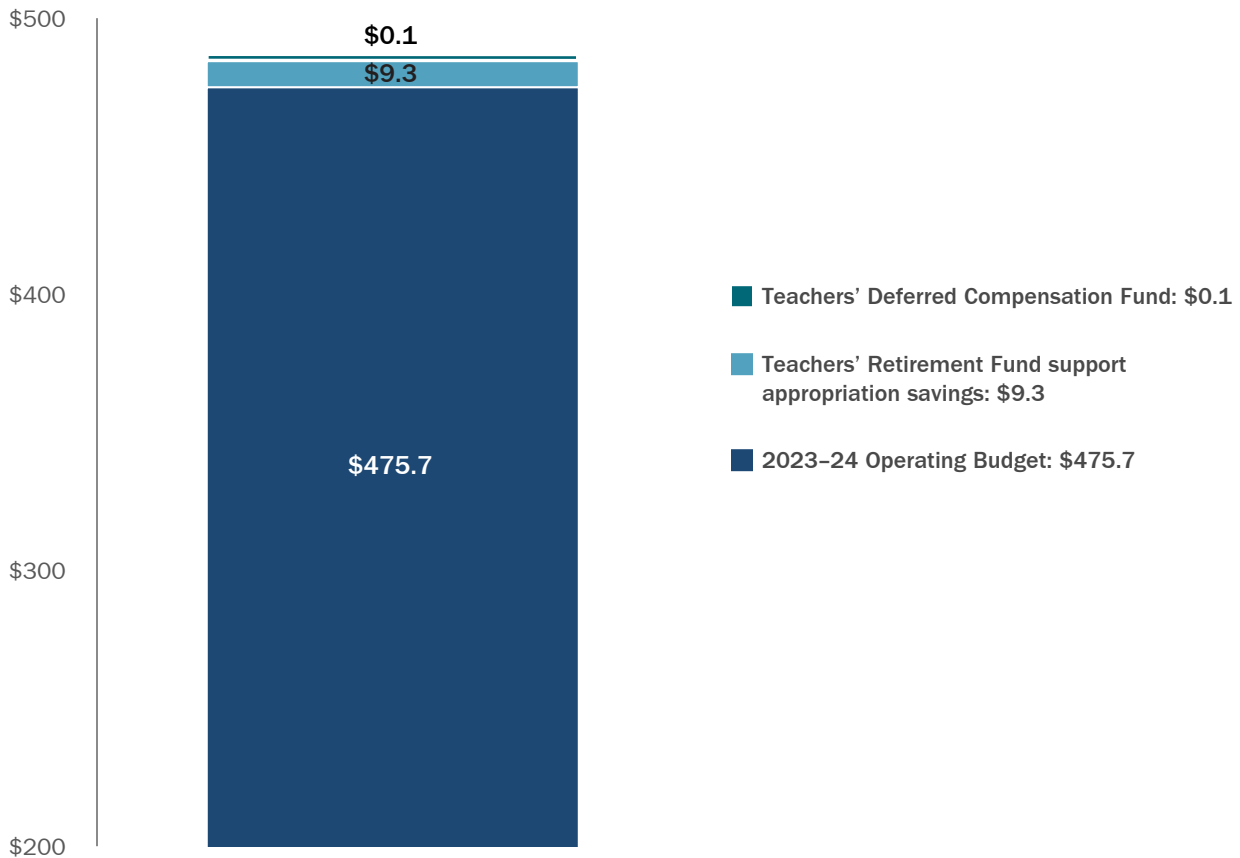
For 2023–24, the annual pro rata assessment will decrease by \$24,000, based on the current assessment provided by the DOF. The overall decrease is largely due to lower than planned shared service costs across various state agencies.

Property management services: (\$13.5) million

The 2023–24 Operating Budget includes a \$13.5 million reduction to the baseline Operating Budget for reversal of one-time funding associated with a property management services contract. The one-time funding was previously approved as part of the 2022–23 Operating Budget for third party tenant improvements and decommissioning infrastructure on leased floors within the CalSTRS headquarters facility.

2023–24 total estimated spending authority

Total: \$485.1
(dollars in millions)



The Operating Budget provides the authority to expend up to \$475.7 million in fiscal year 2023–24. CalSTRS has additional spending authority resulting from prior board approvals, available for expenditure in fiscal year 2023–24. As a result, CalSTRS can end the year with total expenditures greater than the 2023–24 Operating Budget. The primary sources of additional budget authority are the Teachers' Retirement Fund (TRF) support appropriation savings, Teachers' Deferred Compensation Fund (TDCF) and Information Technology Project Funding (ITPF) appropriation carryovers.

As summarized in the chart above, total estimated spending authority above the 2023–24 Operating Budget is currently projected at \$9.4 million. Based on these estimates, CalSTRS can expend up to \$485.1 million in fiscal year 2023–24. Additional details are provided on the following page.

Teachers' Retirement Fund support appropriation savings: \$9.3 million

Pursuant to the **Appendix III.1 of the Teachers' Retirement Board Governance Manual**, if CalSTRS ends the year with savings in the TRF 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, \$9.3 million is available to encumber by June 30, 2025, and through June 30, 2027, to liquidate.

Teachers' Deferred Compensation Fund: \$104,100

The TDCF 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 \$104,100, over the baseline TDCF budget of \$2.1 million, as needed for unanticipated expenditures.

Information Technology Project Funding appropriation

CalSTRS' baseline Operating Budget includes an annual ITPF appropriation of \$18.5 million for enterprisewide projects as authorized by Enterprise Program Investment Council (EPIC). 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 of appropriation are carried over for up to two fiscal years and can be designated to projects authorized by EPIC. Over the past years, CalSTRS has significantly increased efforts to improve enterprisewide IT platforms and has used nearly all of the annual \$18.5 million ITPF appropriation. Therefore, no carryover funding is anticipated to be available in 2023–24.

Capital projects

This section provides a summary of capital projects and the 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.

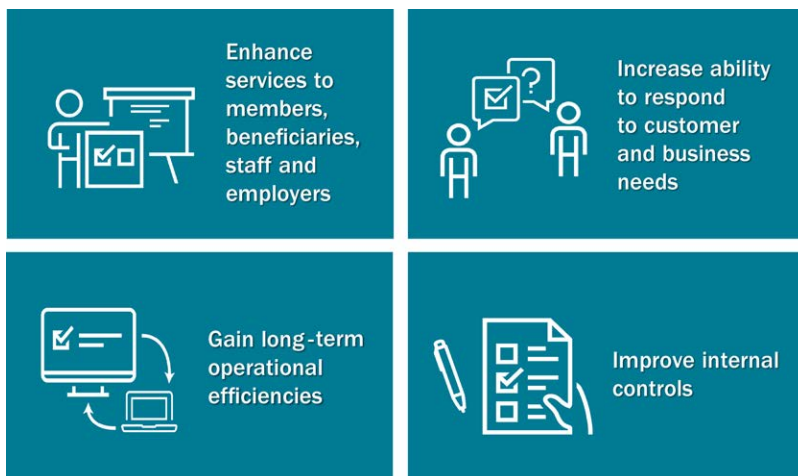
CalSTRS capitalizes operational assets in accordance with Governmental Accounting Standards Board Statements No. 34 and No. 51. Specifically, all land, buildings, improvements, equipment, computer software and other tangible or intangible assets used in operations that have initial useful lives extending 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 an interim project budget of \$422 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. This multiyear project will enhance our ability to respond to customer and business needs; gain long-term operational efficiencies; improve internal controls; and enhance services to more than 1 million members and their beneficiaries, as well as the school employer community.

Pension Solution Project objectives

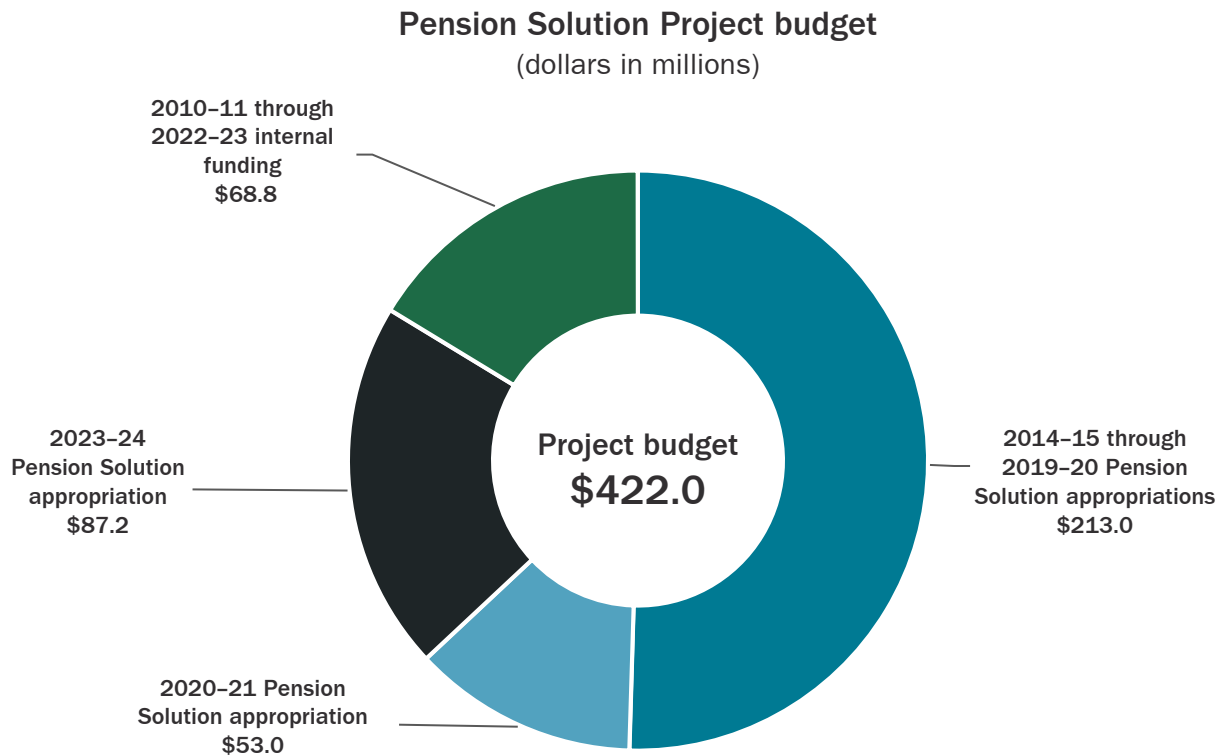


¹ Excludes the cost of bond financing.

Pension Solution Project budget: \$422.0 million

In March 2023, the Teachers' Retirement Board approved an interim Pension Solution Project budget of \$422.0 million. Of the total \$422.0 million budget, \$213.0 million represents the original budget authority approved in fiscal year 2014–15, with funding allotted annually through 2019–20. An additional \$53.0 million was approved for fiscal year 2020–21, \$87.2 million was approved for fiscal year 2023–24, and the remaining \$68.8 million budget is from 2010–11 through 2022–23 internal funding, composed of annual ITPF and TRF support 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 budgeted and consumed amounts by funding source as of December 31, 2022.

Pension Solution Project budget consumption

(dollars in thousands)

Appropriation	Budgeted amount	Consumed amount	Remaining amount
2014–15 through 2019–20 Pension Solution appropriations	\$213,000	\$212,528	\$472
2020–21 Pension Solution appropriation	53,000	46,778	6,222
2023–24 Pension Solution appropriation	87,173	—	87,173
2010–11 through 2022–23 internal funding	68,833	66,811	2,022
Total	\$422,006	\$326,117	\$95,889

Pension Solution Project schedule

The organization continues to progress toward implementing the new pension administration system, however, the project is experiencing delays. To ensure continuity of critical system implementation activities, CalSTRS has established and implemented a new path forward strategy, serving as an integral component for long-term success of the project. This strategy encompasses continued integration of internal staff and resources, in addition to acquiring a new system implementation vendor to complete the project. Once a new system implementation vendor is acquired, and costs are refined, CalSTRS will have sufficient information to develop and establish an updated project schedule and quantify the impact on the budget. Upon completion of these activities, the updated project schedule and budget will be presented to the board for approval, and a budget change proposal will be submitted for the 2024–25 budget cycle to complete the project. CalSTRS remains committed to delivering a quality pension administration system that meets our goals and the needs of our stakeholders.

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 were 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 anticipate 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 (HQE), 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, in November 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 budget authority in the fiscal year 2018–19 Operating Budget. The total cost of construction was recognized in fiscal year 2016–17 and 2018–19 when the funds were encumbered from a budgetary basis.

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 HQE Project. This brings the current project budget to \$318.5 million.

As of May 3, 2023, construction is approximately 93% complete. The anticipated move-in date will be fall of 2023.



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 HQE 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 board approved an additional \$18.5 million to fund the HQE project in January 2022. The funding will cover the costs for completing the HQE Project. Financing for the additional project costs was secured through the issuance of Series 2022 tax-exempt lease revenue green bonds in December 2022. Proceeds from the 2022 bonds are placed in the trust and will be utilized to pay for the costs necessary to complete the HQE Project upon the exhaustion of the proceeds from the Series 2019 bonds. The payment terms of the Series 2022 bonds are aligned with the payment terms of the Series 2019 bonds. Principal payments will be made annually while interest payments will be made semiannually commencing in fiscal year 2023–24, with final payments to be made in fiscal year 2049–50. The total borrowing cost for the Series 2022 bonds was finalized at 3.86%. Bond financing allows CalSTRS to continue investing in diversified markets at the current expected actuarial rate of return of 7%.

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. In November 2022, CalSTRS received notification from the Climate Bond Initiative that the CalSTRS Series 2022 lease revenue bonds met the criteria for certification by the Climate Bonds Standard Board.

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+**

In November 2022, CalSTRS received the following ratings for its Series 2022 bonds, which are the same ratings it received from the two rating agencies on the Series 2019 bonds:

- **Fitch Ratings: AA**
- **S&P Global Ratings: A+**

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

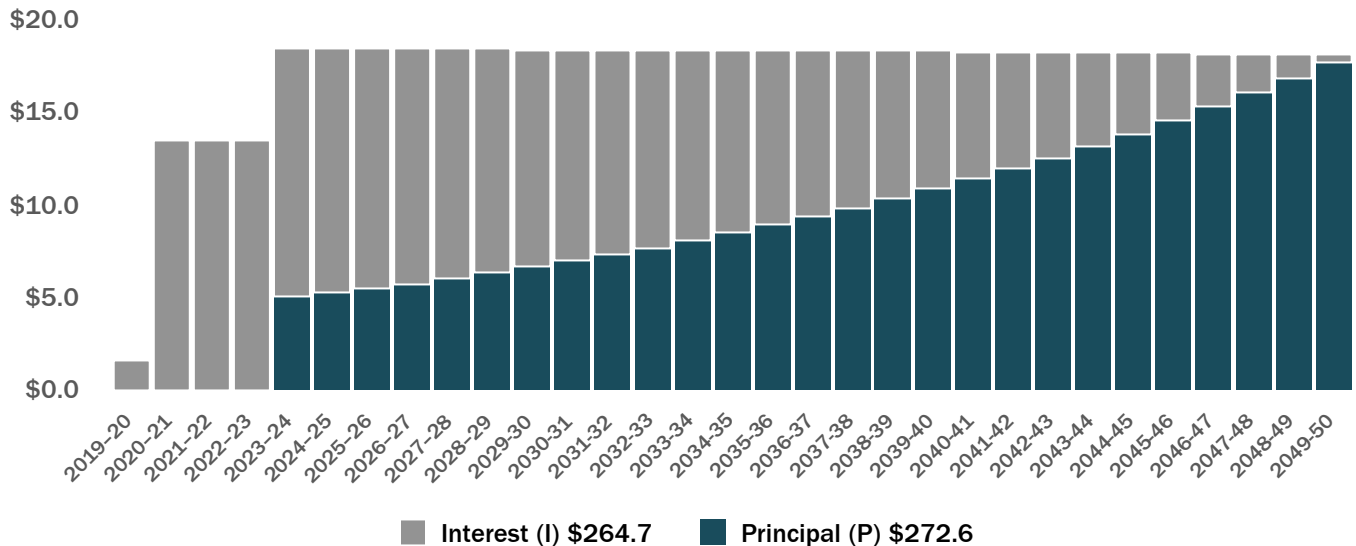
Long-term debt obligations

Series 2019 – \$340.6 million

In December 2019, the IBank, a conduit debt issuer, issued \$340.6 million (\$272.6 million par and \$68.0 million original issue premium) in tax-exempt lease revenue bonds on behalf of CalSTRS. The bond proceeds will be used to fund the construction of the CalSTRS HQE 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. 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. Additional information regarding debt service payments is provided in the “Financial summaries” section.

Long-term debt service payments

Series 2019 bonds
(dollars in millions)



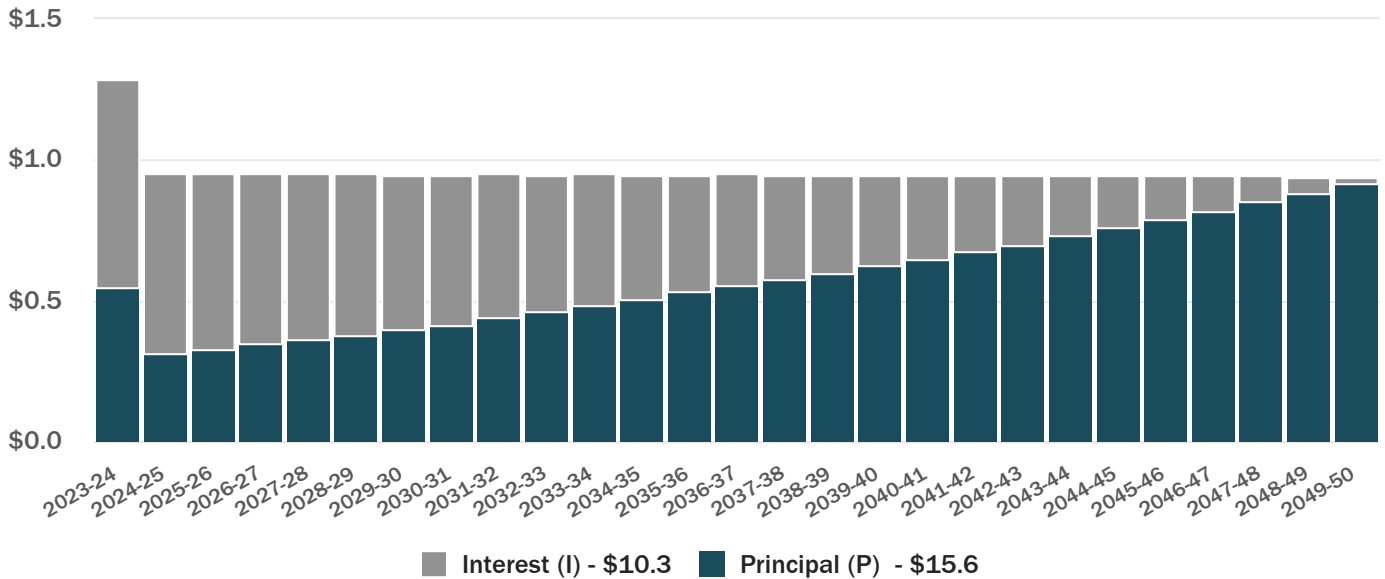
Series 2022 – \$16.2 million

In December 2022, the IBank issued \$16.2 million (\$15.6 million par and \$0.6 million original issue premium) in tax-exempt lease revenue bonds on behalf of CalSTRS. The bond proceeds will be used to fund the additional construction costs to complete the CalSTRS HQE Project. Principal and interest payments will be paid over 27 years. The payment schedule for the Series 2022 Bonds aligns with the Series 2019 Bonds so that both bonds will be fully paid off at the same time, in fiscal year 2049–50. The amortization schedule for the Series 2022 Bonds is provided on the following diagram.

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. The first two and a half years will consist of capitalized interest payments while the building is being constructed.

Long-term debt service payments

Series 2022 bonds
(dollars in millions)



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.

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
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:

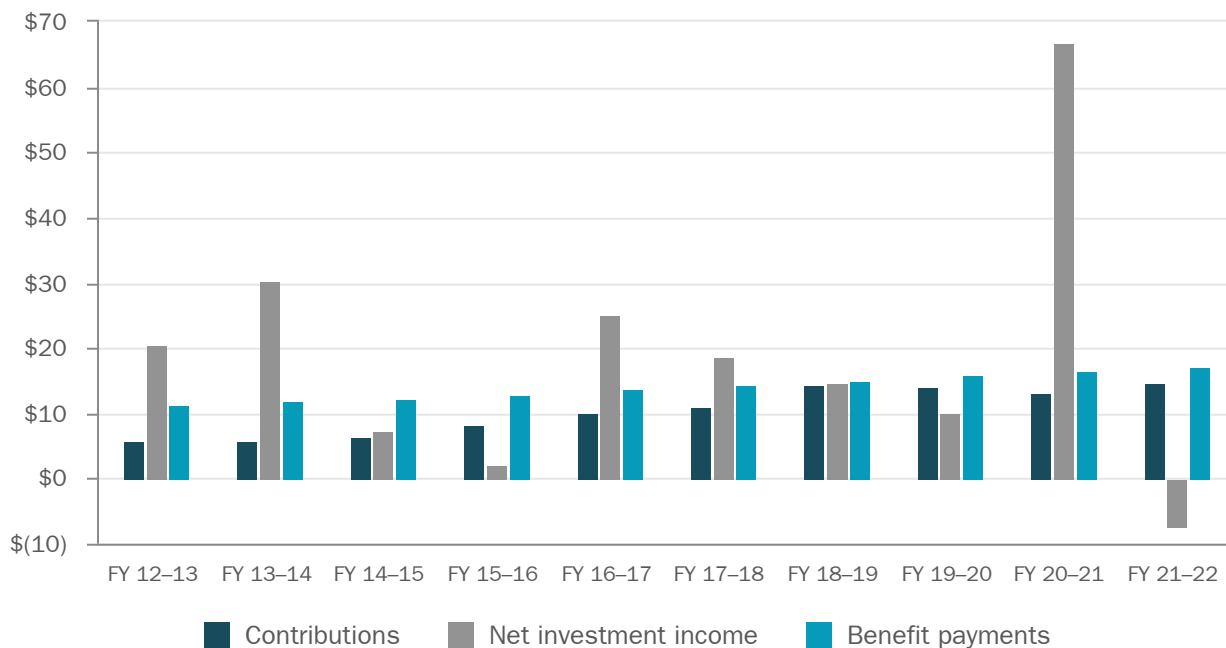
“The assets of a public pension or retirement system are trust funds and shall be held for the exclusive purposes of providing benefits to participants in the pension or retirement system and their beneficiaries and defraying reasonable expenses of administering the system.”

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 \$583.7 million, \$297 million, \$1.1 billion and \$2.2 billion in fiscal years 2021–22, 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 revenues and expenses, and ending fund balance for the 2021–22 fiscal year.

2021–22 fiscal year fund balance: All funds¹

(dollars in thousands)

Beginning fund balance	\$312,716,339
Revenues	
Investment income (loss)	(7,048,569)
Employer contributions	6,549,832
Member contributions	4,315,835
State contributions	4,279,964
Other income	132,501
Total fund revenues	8,229,563
Expenses	
Pension benefit payments	17,172,661
External investment management	245,701
Administrative expenditures	291,683
Contribution refunds	118,351
Other benefit payments	352,434
Other expenditures	256,090
Debt service payment	11,175
Total fund expenses	18,448,095
Ending fund balance	\$302,497,807

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 in CalSTRS' *Annual Comprehensive Financial Report* for the fiscal year ended June 30, 2022, which are prepared using Generally Accepted Accounting Principles. Additional detail is provided in the "Policies" section.

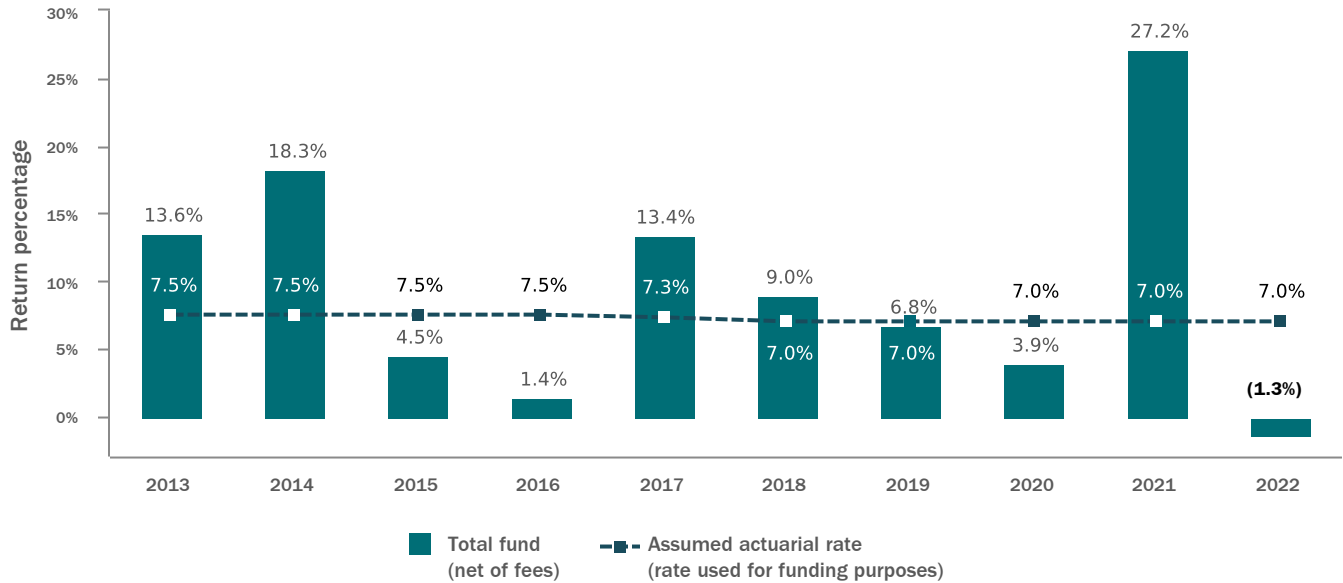
Revenues

CalSTRS' primary sources of revenue are member, employer and state contributions, and investment income. The majority of the revenues derive 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 generated a time-weighted investment loss of -1.3% net-of-fees for the fiscal year ended June 30, 2022. Due to the exceptional investment return of 27.2% earned in the prior

fiscal year, CalSTRS is well positioned to withstand future challenges while keeping the funding plan on track to achieve full funding by 2046.

Over the last 30 years, investment income funded approximately 61.9% of retirement benefits, with employer, state and member contributions providing 15.4%, 9.4% and 13.3% 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.

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 2021–22 fiscal year, retirement benefit and supplemental purchasing power benefit payments for the STRP were approximately \$17.4 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 2021–22 fiscal year were staff salary and benefits,² implementation of the multiyear internal investment management plan, capital projects, and state-mandated expenditures including AB 84³ and pro rata assessments issued 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.

³ To mitigate the impacts of the COVID-19 pandemic on the state's economy, AB 84 provided short-term employer retirement contribution rate relief. In 2021–22, departments were required to pay back the state for the savings accumulated by departments from the short-term rate relief.

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 an overview 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, organizational growth, one-time project funding and variations in investment-related expenses.

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

(dollars in thousands)

	Actual 2021-22	Budget 2022-23	Budget 2023-24	Amount change
Beginning fund balance	\$312,716,339	\$302,497,807	\$319,534,857	\$17,037,050
Revenues				
Investment income (loss)	(7,048,569)	22,127,294	23,637,697	1,510,403
Employer contributions	6,549,832	6,973,168	7,134,817	161,649
Member contributions	4,315,835	4,088,469	4,190,000	101,531
State contributions	4,279,964	3,718,257	3,945,928	227,671
Other income	132,501	210,171	224,321	14,150
Total fund revenues	8,229,563	37,117,359	39,132,763	2,015,404
Expenses				
Pension benefit payments	17,172,661	18,029,333	18,930,448	901,115
External investment management	245,701	312,570	323,778	11,208
Administrative expenditures	291,683	390,360	475,703	85,343
Contribution refunds	118,351	131,652	136,682	5,030
Other benefit payments	352,434	618,761	811,673	192,912
Other expenditures	256,090	586,203	582,683	(3,520)
Debt service payments	11,175	11,430	11,685	255
Total fund expenses	18,448,095	20,080,309	21,272,652	1,192,343
Ending fund balance	\$302,497,807	\$319,534,857	\$337,394,968	\$17,860,111
Percent change				5.6%

¹ Fiscal year 2021-22 includes \$584 million in one-time, supplemental contribution payments from the State of California.

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 Program, Defined Benefit Supplement Program, Cash Balance Benefit Program, 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.

For fiscal year 2023–24, changes in budgeted revenues are primarily due to projected growth in investment returns based on the assumed actuarial rate of return of 7%, and increases in state, employer and member contributions¹ resulting from annual growth in creditable compensation.

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 toward 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 and 2021–22. For fiscal year 2023–24, the state is not providing

additional contributions using Proposition 2 revenues or contribution rate relief for employers.

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 is primarily driven by increased funding for technology-related services contracts, staffing increases to address workload management, the third year of scheduled expenditures for the continued implementation of the investment management plan in support of the CalSTRS Collaborative Model² and state-mandated adjustments to employee compensation and benefits.

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.

Other expenditures are mainly composed of depreciation and portfolio-related expenses, which are projected to have year over year declines based on increasing securities lending rebates and fees and the effects of a higher interest rate environment on master line of credit interest expense. Depreciation increase is based on the capitalization of the CalSTRS Headquarters Expansion Project in summer 2023 upon construction completion.

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

² The Investment Management Plan was approved as part of the 2021–22 Operating Budget.

Teachers' Retirement Fund

(dollars in thousands)

	Actual 2021-22	Budget 2022-23	Budget 2023-24	Amount change
Beginning fund balance	\$310,947,939	\$300,726,741	\$317,446,283	\$16,719,542
Revenues				
Investment income (loss)	(6,895,846)	21,995,000	23,496,145	1,501,145
Employer contributions	6,509,736	6,932,181	7,093,181	161,000
Member contributions	4,067,526	3,799,000	3,884,000	85,000
State contributions	4,279,964	3,718,257	3,945,928	227,671
Other income	130,220	208,000	222,000	14,000
Total fund revenues	8,091,600	36,652,438	38,641,254	1,988,816
Expenses				
Pension benefit payments	17,161,041	18,018,000	18,919,000	901,000
External investment management	245,701	312,570	323,778	11,208
Administrative expenditures	289,709	387,538	472,488	84,950
Contribution refunds	112,424	125,740	130,770	5,030
Other benefit payments	241,702	496,000	673,000	177,000
Other expenditures ¹	251,046	581,618	577,227	(4,391)
Debt service payments	11,175	11,430	11,685	255
Total fund expenses	18,312,798	19,932,896	21,107,948	1,175,052
Ending fund balance	\$300,726,741	\$317,446,283	\$334,979,589	\$17,533,306
Percent change				5.5%

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.

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 2022, the federal dollar limit applicable to a CalSTRS member retiring at age 65 and receiving only a single-life benefit from the Defined Benefit Program was \$208,346. 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.

For fiscal year 2023–24, budgeted employer contributions and pension benefit payments 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 2021–22	Budget 2022–23	Budget 2023–24	Amount change
Beginning fund balance	\$—	\$—	\$—	\$—
Revenues				
Employer contributions	11,620	11,333	11,448	115
Total fund revenues	11,620	11,333	11,448	115
Expenses				
Pension benefit payments	11,620	11,333	11,448	115
Total fund expenses	11,620	11,333	11,448	115
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 is 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 increased member enrollments in the IRC 403(b) and 457(b) plans. The program experienced overall membership growth of 13.1% in the 2021–22 fiscal year. For fiscal year 2023–24, based on the current member growth trajectory, participant contributions are projected to continue increasing. Projected expenditures for benefit payments and fees and services for plan administration will continue to increase as the program continues to grow.

Pension2

(dollars in thousands)

	Actual 2021–22	Budget 2022–23	Budget 2023–24	Amount change
Beginning fund balance	\$1,765,801	\$1,767,869	\$2,085,452	\$317,583
Revenues				
Investment income (loss)	(152,738)	132,258	141,516	9,258
Employer contributions	2,124	3,500	4,300	800
Member contributions	248,309	289,469	306,000	16,531
Other income	299	353	353	—
Total fund revenues	97,994	425,580	452,169	26,589
Expenses				
Contribution refunds	5,927	5,912	5,912	—
Other benefit payments	84,955	97,500	113,917	16,417
Other expenditures	5,044	4,585	5,456	871
Total fund expenses	95,926	107,997	125,285	17,288
Ending fund balance	\$1,767,869	\$2,085,452	\$2,412,336	\$326,884
Percent change				15.7%

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.

For 2023–24, budgeted revenues are projected to increase due to growth in the asset base and vendor maintenance fees collected from members participating in the Pension2 Program. Budgeted expenditures are also projected to increase due to increases in employee compensation and the pro rata assessment issued by the state's Department of Finance.

Teachers' Deferred Compensation Fund

(dollars in thousands)

	Actual 2021–22	Budget 2022–23	Budget 2023–24	Amount change
Beginning fund balance	\$2,322	\$2,966	\$2,873	(\$93)
Revenues				
Investment income (loss)	11	18	18	—
Other income	1,982	1,818	1,968	150
Total fund revenues	1,993	1,836	1,986	150
Expenses				
Administrative expenditures	1,349	1,929	2,083	154
Total fund expenditures	1,349	1,929	2,083	154
Ending fund balance	\$2,966	\$2,873	\$2,776	(\$97)
Percent Change				(3.4%)

Teachers' Health Benefits Fund

The Teachers' Health Benefits Fund (THBF) 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 2023–24 are projected to decrease due to declining membership in the program. Year-over-year changes in budgeted administrative expenditures are primarily associated with state-mandated adjustments to employee compensation and an increase in the pro rata assessment issued by the state's Department of Finance.

Teachers' Health Benefits Fund

(dollars in thousands)

	Actual 2021–22	Budget 2022–23	Budget 2023–24	Amount change
Beginning fund balance	\$277	\$231	\$249	\$18
Revenues				
Investment income (loss)	4	18	18	—
Employer contributions	26,352	26,154	25,888	(266)
Total fund revenues	26,356	26,172	25,906	(266)
Expenses				
Administrative expenditures	625	893	1,132	239
Other benefit payments	25,777	25,261	24,756	(505)
Total fund expenses	\$26,402	\$26,154	\$25,888	(\$266)
Ending fund balance	\$231	\$249	\$267	\$18
Percent change				7.2%

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 are 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 **Investment Policy and Management Plan** 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 IPMP 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 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 the *Annual Comprehensive Financial Report*. The modified cash basis of accounting is used for 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 business area 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 member, employer and state contributions, including penalties and interest. CalSTRS recognizes revenue for member, employer 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 Benefit Program to the Defined Benefit Program. The authority for such action was granted by legislation and subsequent board action. CalSTRS members may be eligible to

participate in 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

Business area managers

- Create spending plans
- Monitor budget allotments
- Research and report discrepancies to the Budget Office

Budget Office

- Build the budget and present it to the board
- Provide managers with tools to estimate annual expenditures
- Assist managers with budget questions
- Act as a liaison between the CFO, COO, CEO and business areas
- Act as a liaison between various fiscal control agencies and the Administration

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.

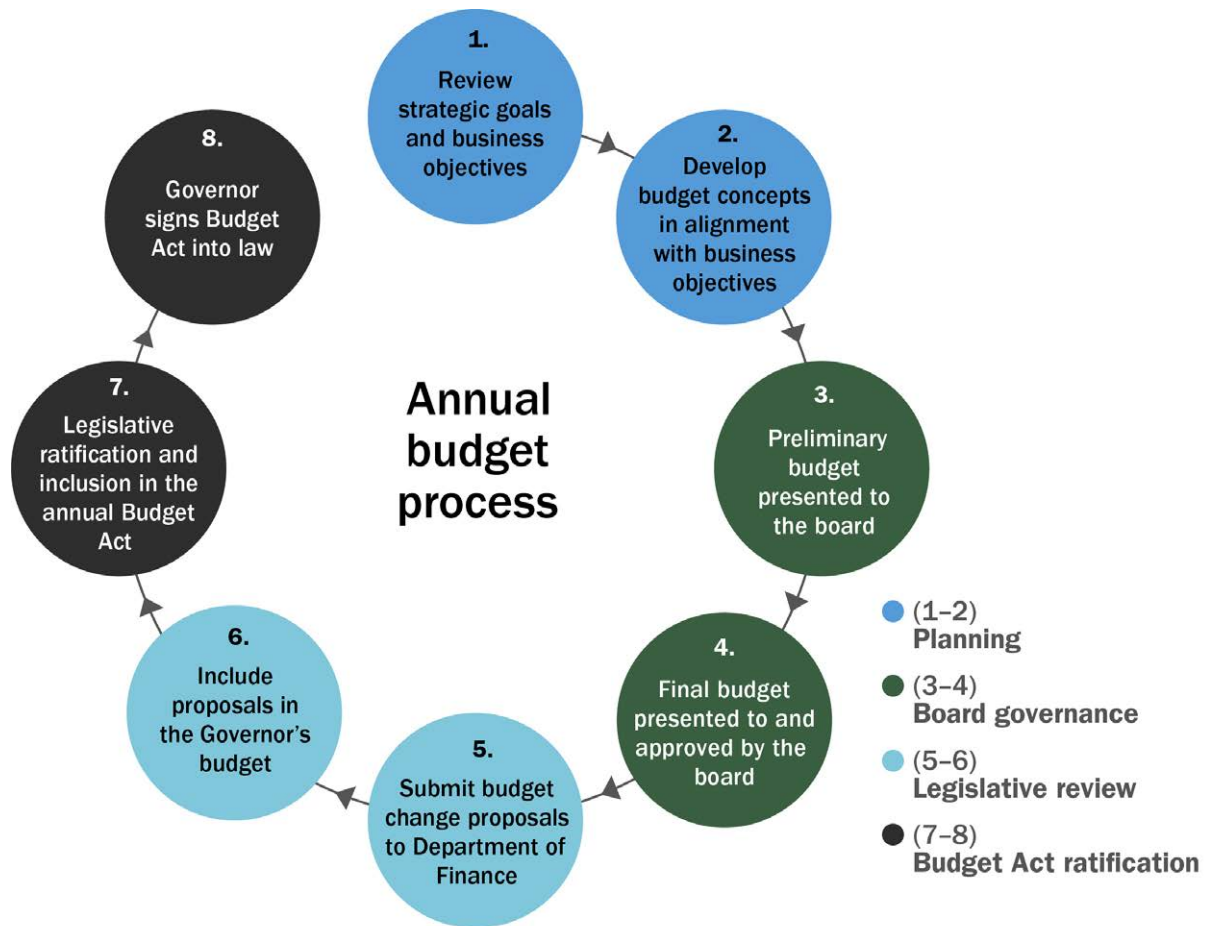
The process advances with the Teachers' Retirement Board's final review and approval.

After the board's review and approval, the budget moves through 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 on the next page.



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, costs for implementing new legislation, and assessments from the Department of Finance.

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 Budget Change Proposals 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.

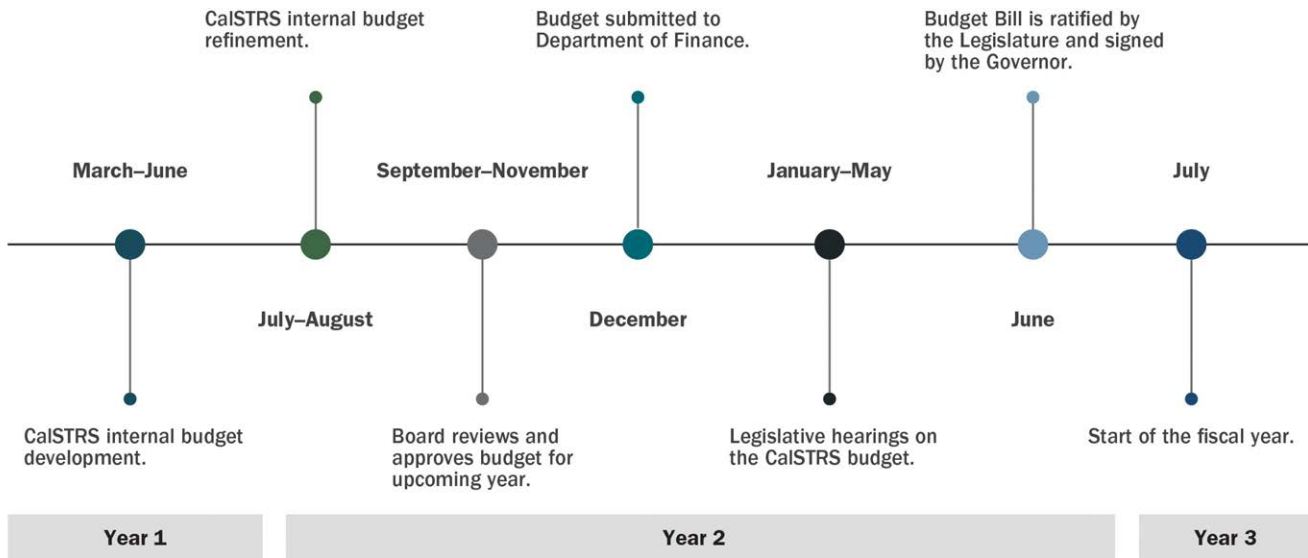
- Legislative subcommittees hold hearings to review the Governor's proposed budget. During these hearings, CalSTRS' BCP(s) are reviewed by each house—Senate and Assembly, and each vote on the proposal(s). If requested, the CFO and other executive leadership, as appropriate, may be asked to testify before 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.



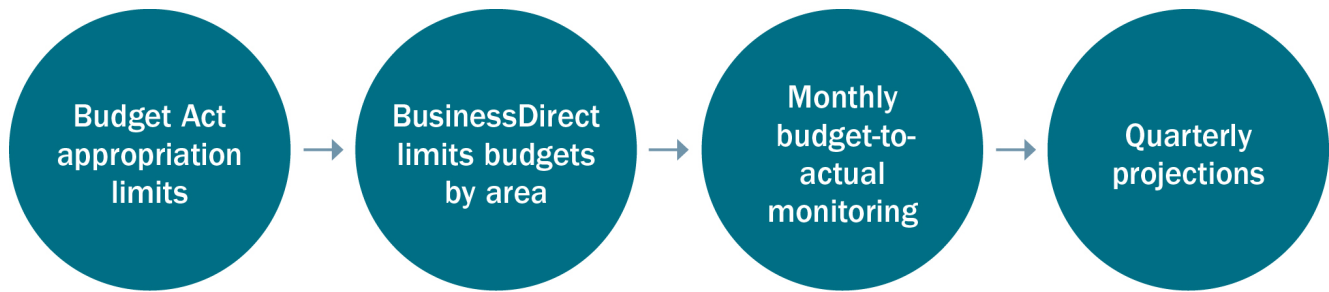
Budget controls and monitoring

After the Governor’s Budget is passed, 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 usage is consistent with projections. Revenues and expenditures are also forecasted and monitored monthly to prevent exceeding the established budget authority. These analyses are presented to executive management on 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.

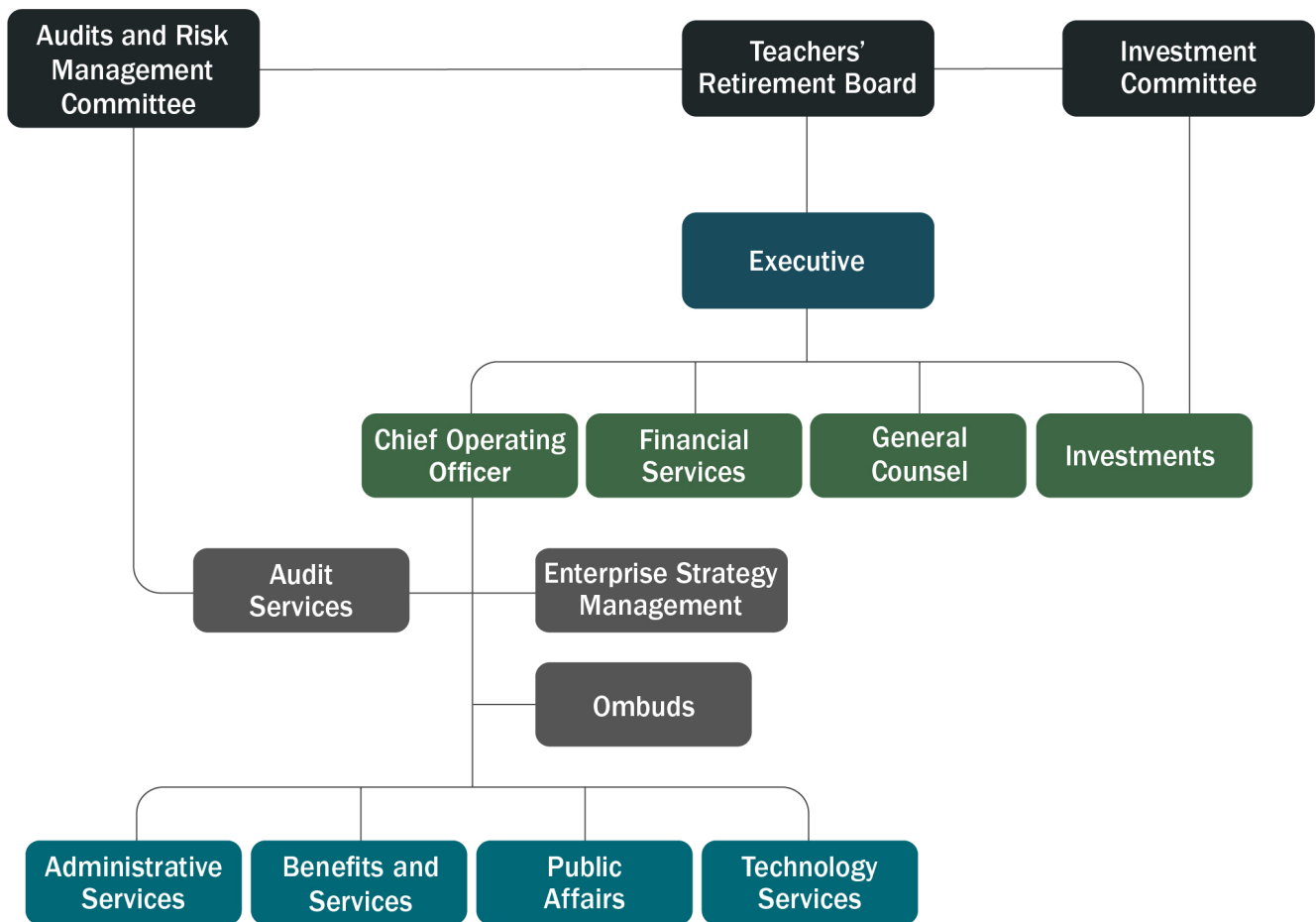
Position control

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 the threshold of \$12,668 per month 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

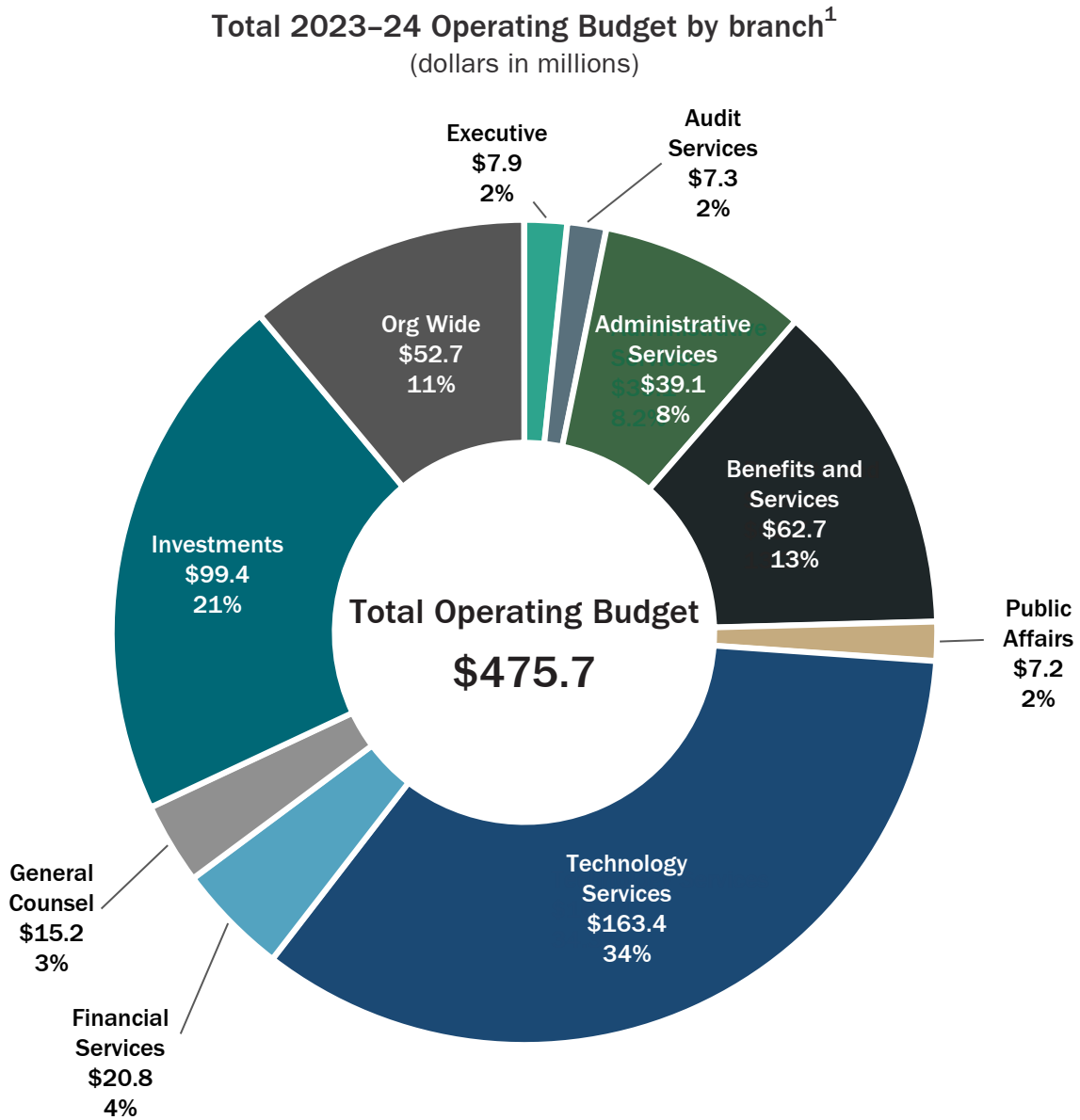


¹ In addition to the Audits and Risk Management and Investment committees, the board also has the Appeals, Benefits and Services, Board Governance, and Compensation committees. Additional information is provided in the "About the California State Teachers' Retirement System" section.

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.

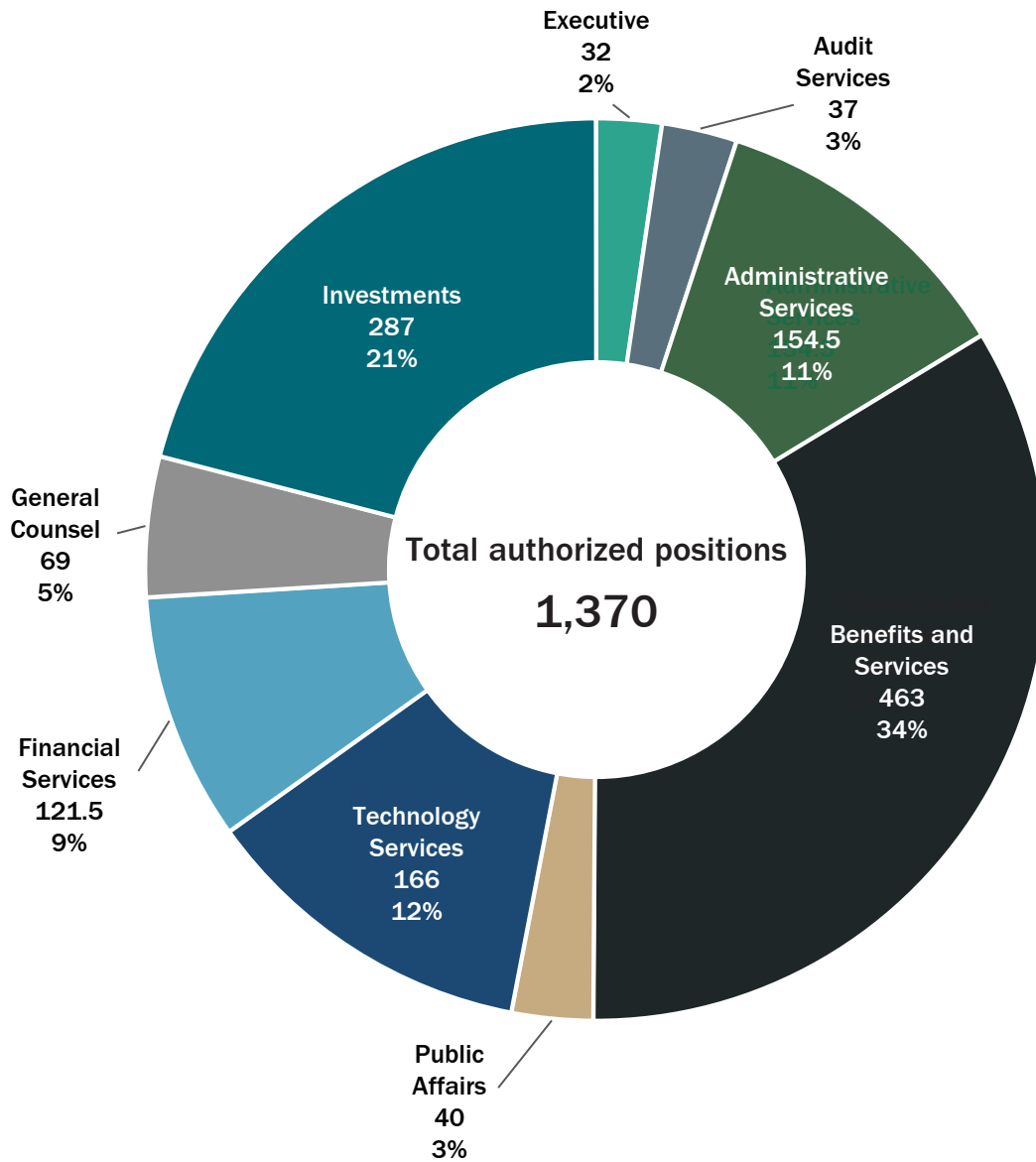
The following chart displays CalSTRS' 2023–24 total functional budget by branch, which includes salaries, benefits and operating expenses and equipment.



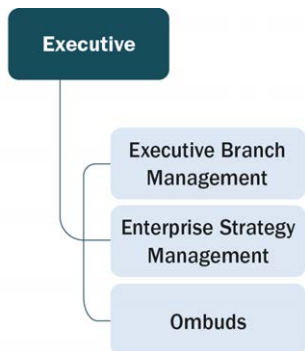
¹ Org Wide budget is for enterprisewide expenses, including office supplies, contracts and internal reserves.

CalSTRS' total authorized positions by branch are displayed in the following chart. As referenced in the "Budget overview" section, the 2023–24 Operating Budget has 1,370 authorized positions.

Total 2023–24 authorized positions by branch



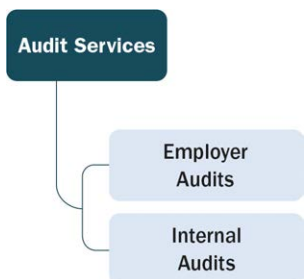
A description of each branch and the corresponding actual, budget and position information for fiscal years 2021–22, 2022–23 and 2023–24 is provided on the following pages.¹



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 2021–22	Budget 2022–23	Budget 2023–24
Authorized positions	28.5	32	32
(dollars in thousands)	\$7,577	\$8,002	\$7,901



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 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 2021–22	Budget 2022–23	Budget 2023–24
Authorized positions	29.7	35	37
(dollars in thousands)	\$7,787	\$7,073	\$7,287

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 was moved from Audit Services to the Financial Services Branch. This change is reflected as part of the Financial Services Branch budget in 2023–24.

Administrative Services

Facilities Management

Human Resources

Procurement Management

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 2021-22	Budget 2022-23	Budget 2023-24
Authorized positions	120.4	141.5	154.5
(dollars in thousands)	\$24,954	\$51,242	\$39,093

Benefits and Services

Customer Service

Disability and Survivor Benefits

Employer Services

Retirement Readiness

Service Retirement

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 2021-22	Budget 2022-23	Budget 2023-24
Authorized positions	397.2	446	463
(dollars in thousands)	\$56,208	\$62,107	\$62,666

Public Affairs

Communications

External Affairs

Governmental Relations

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 and rulemaking processes to shape statutory and regulatory issues impacting the organization.

	Actual 2021-22	Budget 2022-23	Budget 2023-24
Authorized positions	35.7	38	40
(dollars in thousands)	\$6,904	\$7,087	\$7,245

Technology Services

- Enterprise IT Governance
- Enterprise IT Solutions and Innovation
- IT Infrastructure and Operations
- Pension Solution
- Project Management Program

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 2021-22	Budget 2022-23	Budget 2023-24
Authorized positions	135.2	155	166
(dollars in thousands)	\$54,685	\$81,784	\$163,386

Financial Services

- Accounting
- Actuarial Resources
- Enterprise Risk and Financial System Support
- Financial Planning, Accounting and Reporting

Financial Services

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

	Actual 2021-22	Budget 2022-23	Budget 2023-24
Authorized positions	102.1	116.5	121.5
(dollars in thousands)	\$19,516	\$20,471	\$20,804

General Counsel

- Enterprise Information Management and Operations
- Information Security
- Investment Counsel
- Legal Services
- Litigation Services

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 2021-22	Budget 2022-23	Budget 2023-24
Authorized positions	50.8	62	69
(dollars in thousands)	\$12,527	\$13,693	\$15,250

Investments

The Investments Branch oversees and manages the CalSTRS Investment Portfolio, which was valued at approximately \$301.6 billion as of June 30, 2022. 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 2021-22	Budget 2022-23	Budget 2023-24
Authorized positions	208.1	267	287
(dollars in thousands)	\$67,902	\$90,472	\$99,417

Sustainable Investment and Stewardship Strategies

Fixed Income

Global Equity

Inflation Sensitive

Investment Strategy and Risk

Private Equity

Real Estate

Risk Mitigating Strategies

Investment Services

Appendix

Appendix 1

Members and beneficiaries at a glance

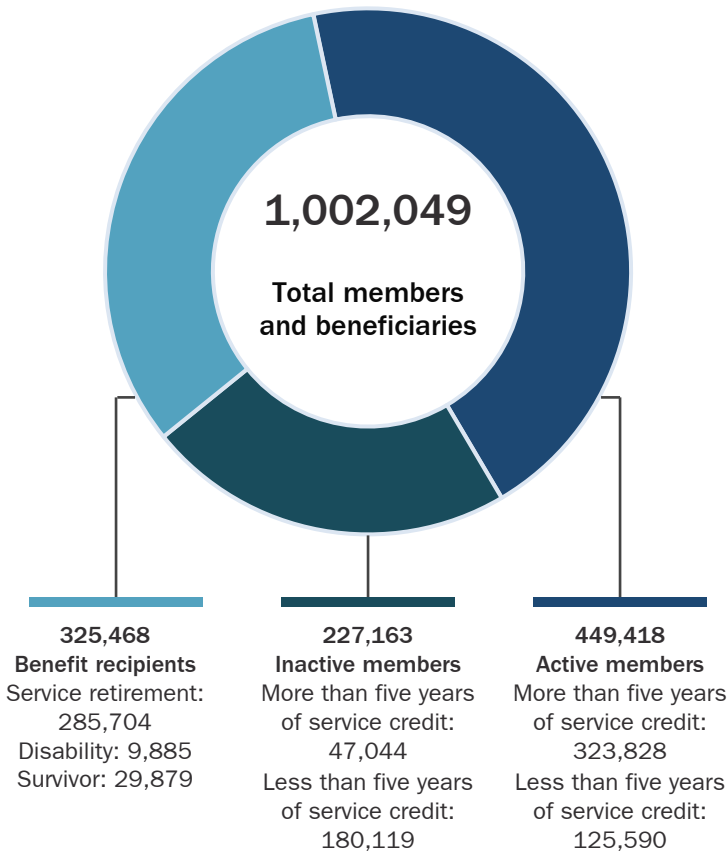
Today, CalSTRS is the largest educator-only pension fund in the world and the second largest pension fund in the United States. A summary of key statistics about our members and retirees is provided below.



\$17.4 billion

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

\$4,809 Average monthly Member-Only Benefit for those retiring in 2021–22



11,754

Number of service retirements during the fiscal year

24.2

Average years of member service credit

63.0

Average member age at retirement



59.5%

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 \$13.4 billion in benefits to 237,410 retirees living in California during fiscal year 2021–22. 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 2021–22 ¹
Alameda	7,739	\$438,708,432
Alpine	14	604,632
Amador	451	21,317,868
Butte	2,241	110,795,040
Calaveras	610	29,594,760
Colusa	120	5,931,360
Contra Costa	7,721	414,895,656
Del Norte	266	12,426,456
El Dorado	2,383	126,651,684
Fresno	6,704	363,544,512
Glenn	136	6,643,872
Humboldt	1,443	61,662,276
Imperial	878	55,018,992
Inyo	162	7,070,328
Kern	4,535	259,202,460
Kings	616	34,424,544
Lake	499	22,455,000
Lassen	234	11,111,256
Los Angeles	44,501	2,636,417,244
Madera	1,436	74,097,600
Marin	2,355	118,126,800
Mariposa	273	12,301,380
Mendocino	1,132	51,347,520
Merced	1,629	93,576,276
Modoc	87	3,389,868
Mono	202	10,253,520
Monterey	3,315	181,158,120
Napa	1,422	74,928,024
Nevada	1,637	79,067,100
Orange	21,957	1,418,861,340
Placer	4,605	250,493,580
Plumas	317	13,903,620
Riverside	14,031	799,261,884
Sacramento	9,685	503,581,260
San Benito	322	18,578,112
San Bernardino	10,237	591,493,860
San Diego	22,236	1,251,175,248
San Francisco	2,974	158,204,904
San Joaquin	4,235	236,922,840
San Luis Obispo	4,638	238,986,864
San Mateo	3,777	226,438,704
Santa Barbara	3,107	164,683,428
Santa Clara	9,253	560,509,728
Santa Cruz	3,026	157,158,336
Shasta	1,698	81,157,608
Sierra	64	3,002,112
Siskiyou	634	27,259,464
Solano	3,250	168,792,000
Sonoma	4,666	239,365,800
Stanislaus	3,326	195,488,976
Sutter	780	43,271,280
Tehama	785	38,697,360
Trinity	122	5,124,000
Tulare	3,205	182,261,940
Tuolumne	717	35,568,936
Ventura	7,396	421,305,744
Yolo	1,269	62,236,836
Yuba	357	17,281,656
Total	237,410	\$13,427,790,000

1 The annualized benefits based on the June 2022 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 the initial hire date in performing services 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, 2021	10.250%	10.205%
July 1, 2022	10.250%	10.205%
July 1, 2023	10.250%	10.205%

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.

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 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, 2021	16.920%
July 1, 2022	19.100%
July 1, 2023	19.100%
July 1, 2024, to June 30, 2046	Subject to board determination
July 1, 2046 and thereafter	Revert to base rate ⁴ of 8.25%

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 provide rate relief to employers for fiscal years 2019–20, 2020–21 and 2021–22, respectively. For fiscal year 2021–22, although the Teachers' Retirement Board adopted an employer rate of 19.1%, 2.18% of payroll rate relief provided by the state resulted in employers having to contribute based on a rate of 16.92% of payroll.

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 ago. 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, 2023, the state’s contribution rate is 10.828%.

State contribution rates

Effective date	Rate
July 1, 2021	10.828%
July 1, 2022	10.828%
July 1, 2023	10.828%
July 1, 2024, to June 30, 2046	Subject to board determination
July 1, 2046 and thereafter	Revert to base rate ¹

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.

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.

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 2023–24 Operating Budget is administered through the TRF, TDCF and the THBF.

Teachers' Retirement Fund

(dollars in thousands)

Budget category	Actual 2021–22	Budget 2022–23	Budget 2023–24	Amount change
Salaries	\$141,127	\$167,892	\$190,171	\$22,279
Benefits	69,726	70,604	83,335	12,731
OE&E	78,856	149,042	198,982	49,940
Total	\$289,709	\$387,538	\$472,488	\$84,950

Teachers' Deferred Compensation Fund

(dollars in thousands)

Budget category	Actual 2021–22	Budget 2022–23	Budget 2023–24	Amount change
Salaries	\$681	\$832	\$846	\$14
Benefits	400	468	503	35
OE&E	268	629	734	105
Total	\$1,349	\$1,929	\$2,083	\$154

Teachers' Health Benefits Fund

(dollars in thousands)

Budget category	Actual 2021–22	Budget 2022–23	Budget 2023–24	Amount change
Salaries	\$288	\$373	\$417	\$44
Benefits	181	242	270	28
OE&E	156	278	445	167
Total	\$625	\$893	\$1,132	\$239

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 2023–24 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 business area.

Operating Budget by appropriation

(dollars in thousands)

	2023–24
Budget Act	
Teachers’ Retirement Fund support appropriation	\$336,317
Information Technology Project Funding appropriation	105,673
Total Budget Act	441,990
Direct transfers	17,374
Other continuous appropriations	13,124
Total Teachers’ Retirement Fund Budget	472,488
Teachers’ Deferred Compensation Fund	2,083
Teachers’ Health Benefits Fund	1,132
Total 2023–24 Operating Budget	\$475,703

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 were required to begin repayment of the loan.

Appendix 6

Revised 2022–23 Operating Budget

In September 2022, the 2022–23 board-approved Operating Budget was revised in the amount of \$15.9 million to partially fund one-time contract costs of \$30 million to continue system implementation activities for the Pension Solution Project.

Pursuant to the board governance manual, **Appendix III.1 of the Teachers' Retirement Board Governance Manual**, CalSTRS is allowed to carry forward up to 3% of the TRF support appropriation savings into a future year for the purpose of meeting anticipated system costs and promoting better service to the system's membership. Under this provision, and with the board's approval, CalSTRS carried over \$8.0 million and \$7.9 million from the 2020–21 and 2021–22 TRF support appropriation savings, respectively, for a total of \$15.9 million to fund the one-time contract costs. The remaining \$14.1 million was funded internally within the existing 2022–23 Operating Budget.

The 2022–23 board-approved Operating Budget was revised from \$374.5 million to \$390.4 million. This reflects an increase of \$15.9 million, or 4%, relative to the original 2022–23 board-approved Operating Budget.

CalSTRS revised 2022–23 Operating Budget

(dollars in millions)

	Approved 2022–23	Pension Solution Project Budget	Revised 2022–23	Amount change	Percent change
Total	\$374.5	\$15.9	\$390.4	\$15.9	4%

Glossary

Accrual

Revenues or expenditures that have been recognized for that fiscal year but not received or disbursed until a subsequent fiscal year. Annually, accruals are included in the revenue and expenditure amounts reported in departments' budget documents and year-end financial reports. For budgetary purposes, departments' expenditure accruals also include payables and outstanding encumbrances at the end of the fiscal year for obligations attributable to that fiscal year.

Amortization

The accounting practice of spreading the cost of an intangible asset over its useful life.

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. 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 Teachers' Retirement Board, the 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. The DOF is accountable for the long-term economic sustainability and responsible resource allocation through the state's annual financial plan.

Depreciation

The expensing of a fixed asset over its useful life. Fixed assets are tangible objects acquired by a business.

Fiduciary

A fiduciary owes to the other entity the duties of good faith and trust and acts in the other's best interest.

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.

Government Finance Officers Association

The GFOA represents public finance officials throughout the United States and Canada. The association's members are finance officials deeply involved in planning, financing and implementing thousands of governmental operations in each of their jurisdictions. The GFOA's mission is to advance excellence in public finance.

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.

Modified cash basis

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.

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 health care 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.



CALSTRS
HOW WILL YOU SPEND YOUR FUTURE?