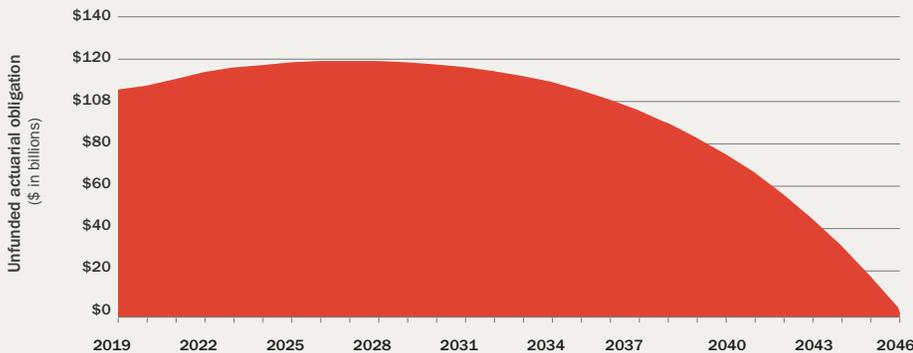


2020 Review of Funding Levels and Risks

CalSTRS actuaries presented the fifth annual edition of the *Review of Funding Levels and Risks* report to the Teachers' Retirement Board. The report provides information to assess the soundness and sustainability of the CalSTRS Defined Benefit Program and to promote a better understanding of how well the CalSTRS Funding Plan is expected to accomplish its goal of achieving full funding by 2046.

This year's report is based on the June 30, 2019, annual actuarial valuation of the Defined Benefit Program and reflects all relevant changes that have occurred since the valuation, including the 3.9% investment return reported for the 2019–20 fiscal year and changes in the 2020–21 state budget.

Projected unfunded actuarial obligation



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Semi-annual Enterprise Risk Management Report

The Teachers' Retirement Board heard the semi-annual Enterprise Risk Management (ERM) Report at its December meeting. CalSTRS reviews internal and external risks on a quarterly basis and presents a twice-yearly report to summarize findings. The current report reflects updates through September 30, 2020.

CalSTRS completed the following risk mitigating activities during the reporting period:

- 100 percent completion of Risk and Internal Controls Awareness online training – Completed in June 2020.
- Annual branch risk assessments – Completed in June 2020
- Identified third-party risk category related to outside parties that perform work on behalf of CalSTRS. As a result, CalSTRS now has 11 regularly monitored risk categories.

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December TRB meeting online



See the December board meeting, and an archive of previous meetings, on CalSTRS.com.

Board members

Harry M. Keiley
Chair, K-12 Classroom Teacher

Sharon Hendricks
Vice Chair, Community College Instructor

Keely Bosler
Ex Officio Member, Director of Finance

Denise Bradford
K-12 Classroom Teacher

Joy Higa
Public Representative

Fiona Ma
Ex Officio Member, State Treasurer

William Prezant
Public Representative

Tony Thurmond
Ex Officio Member, State Superintendent of Public Instruction

Jennifer Urdan
Public Representative

Karen Yamamoto
Retiree Representative

Betty Yee
Ex Officio Member, State Controller

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2020 Review of Funding Levels and Risks

Key findings:

- Long-term contribution levels for both employers and the state are expected to be higher than previously estimated in the most recent actuarial valuation.
- Some of the improvements in funding levels in 2019 were reversed when supplemental contributions were redirected away from unfunded liability to instead provide short-term rate relief to employers.
- Changes made to contribution rates through the adoption of the 2020–21 state budget slightly weakened the funding plan long term by increasing the risk it may not be able to react adequately to a potential recession.
- The largest risk facing CalSTRS' ability to reach full funding remains risk from investment volatility.
- Decreases in the size of the active membership or lower than anticipated increases in future payroll could put significant strain on CalSTRS' ability to achieve full funding, especially if caused by a recession that also results in a period of lower investment returns.

Despite current risks to the system, including potential impacts of COVID-19 to the workforce and the market, the Funding Plan puts CalSTRS in a better position today than it was 10 years ago to react to and absorb the impact of a recession. Read the full [Review of Funding Levels and Risks](#).

CalSTRS taking time to review root causes of overpayments

The Teachers' Retirement Board requested a delay before considering whether to sponsor legislation that would have shifted a portion of the responsibility for re-paying overpaid benefits from members to school employers. The delay until November 2021 will give member organizations, employers and CalSTRS time to explore solutions to address the root causes that lead to overpayments before making statutory changes that could affect member pensions and school budgets.

Next board meeting dates:
Appeals Committee (January 7)
January 27–28, 2021

For board [minutes](#), [full items](#) and [video archives](#) of past meetings, go to calstrs.com/teachers-retirement-board.

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Semi-annual Enterprise Risk Management Report

Through our ERM efforts, CalSTRS monitors 11 risk categories with a heat map and Risk Score Report. The heat map provides a graphic display of the inherent and residual risks for each risk category, providing a visual summary of the effectiveness of mitigation strategies.

Inherent risk is defined as risk that exists without any mitigating strategies in place, and residual risk is risk that remains after controls are in place. Seven of the 11 risk categories have residual risk scores at the low or very low level.

Three categories were scored at medium risk and one at high risk as follows:

- Category 4 – Pension Administration (medium).
- Category 7 – Information Security (high).
- Category 10 – Transformational Change (medium).
- Category 11 – Third Parties (medium).

Information Security remains a constant focus for the organization and staff remain confident in the mitigation efforts to control this risk including ongoing monitoring of CalSTRS systems and staff education in the remote work environment as a result of the COVID-19 pandemic.

[Read the full report and board item](#) to learn how CalSTRS is managing risk throughout the organization.



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For more information on board meeting items and video archives, visit www.CalSTRS.com/teachers-retirement-board