**Fact Sheet** 

## **CalSTRS 2022–23 Asset Liability Management Study**

#### What is the Asset Liability Management Study?

The Teachers' Retirement Board oversees the secondlargest public pension fund in the U.S. One of the most important functions of that responsibility, setting the asset allocation, is performed by the board's Investment Committee. The board's asset allocation strategy directs how CalSTRS investment staff "allocate" or invest CalSTRS assets—for example, how much is invested in the U.S. stock market and the U.S. bond market. The comprehensive process weighs both teacher pension liabilities and the assets needed to fund those pensions over the long term. To help the Investment Committee reach its objective to adopt a long-term asset allocation that reflects the Teachers' Retirement Fund's obligations, we conduct an Asset Liability Management Study every four years. The study ensures responsible investment practices and strategies are used in recommending investment allocations.

Since the 2019 study, the ALM Study and the review of the fund's actuarial experience study and valuations have been aligned, which helps ensure the ALM Study is using the same assumptions for both assets and liabilities, in addition to having the latest financial and demographic assumptions. The year-long process is a thorough collaboration between internal investment and actuarial staff along with the board's external consultants.

#### **ALM process and timeline**

STEP 1 Overview and education		STEP 3	STEP 3 Preliminary portfolio modeling		STEP 5 Adoption of long-term asset allocation	
overview of educate the	aff provide a high-level the process and e Investment Committee i' strategic asset classes c roles.	CalSTRS s preliminar portfolios trade-offs	staff review ry asset class and discuss and risks of the Investment	Investment	Committee ew long-term	
lovember 2022	January 2023	March 2023	May 2023	July 2023	September 2023	
	STEP 2		STEP 4		STEP 6	
	Assumptio introducti decision f	on to key actors	Candidate port modeling CaISTRS staff pr		Formal adoption Investment Committee approves updated Investment Policy	
	CalSTRS staff identify a series of important assumptions about expected returns, risk and interrelationships between strategic asset classes.		number of ca portfolios and	analyses of a small number of candidate portfolios and model risks for consideration by the Investment Committee.		

### Why is CalSTRS' ALM Study unique?

Conducting an ALM Study is a best practice for all pension funds, but the outcome of each study is unique to each plan. The data and results from our study are specific and applicable only to the Teachers' Retirement Fund; any comparison with similar studies for other pension funds would be misleading. The singular focus of the CaISTRS ALM Study is to review CaISTRS' liabilities (or pension benefits) owed to its members and its funding structure (CaISTRS Funding Plan) to determine how best to invest the assets to fund those pension benefits. CaISTRS members are unique regarding their years of service, pension benefit

formula and demographics. The CalSTRS Funding Plan is also unique to CalSTRS and an important component of any asset allocation decisions. The funding plan, enacted in 2014, puts CalSTRS on the path toward full funding by 2046 through gradual contribution increases shared between CalSTRS members, employers and the state.

Figure 1: Sources of revenue to pay benefits for the last 30 years

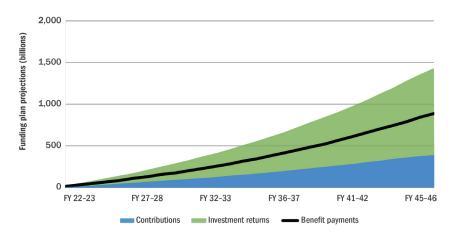


Investment earnings are a critical component of the CalSTRS Funding Plan and the goal of reaching full funding by 2046. For the last 30 years, investment earnings have been the largest contributor to our ability to pay benefits (see Figure 1) and will continue to be. While benefit payments and contributions are predictable, short-term investment

> returns are more volatile due to normal market movements that can cause significant swings in portfolio return in any given year.

CalSTRS is a mature system, which means the system is approaching an active member-toretiree ratio of one-to-one. This puts the system into what is called deficit funding, meaning annual benefits paid exceed contributions received each year (see Figure 2). It also makes the system more sensitive to investment volatility. Over the past 30 years academic research has shown that 90% of investment performance and volatility is directly linked to the system's asset allocation. To mitigate risks, the ALM Study spends significant time modeling market volatility as a key risk to manage and take advantage of when it offers appropriate investment returns. As a result, the CalSTRS ALM Study puts it on the best path toward achieving full funding.

#### Figure 2: Projected investment returns, contributions and benefit payments



#### How does the CaISTRS ALM Study relate to the board's Investment Beliefs?

The board has adopted a set of nine Investment Beliefs. These beliefs provide guidance to the board for investing in a manner that reflects CaISTRS' view of the global investment markets and its vision for participating in these markets to accomplish its fiduciary goal. The board has identified four of these beliefs that relate directly to the ALM Study process.

- **Belief 1** Diversification strengthens the fund.
- **Belief 5** CalSTRS can potentially capture an illiquidity risk premium.
- **Belief 6** Managing short-term drawdown risk can positively impact CaISTRS' ability to meet its long-term financial obligations.
- **Belief 9** Investment risks associated with climate change and the related economic transition—physical, policy and technology driven—materially impact the value of CalSTRS' investment portfolio.

# CALSTRS.