



Regular Meeting

Item Number 3 – Open Session

Subject: CalSTRS Annual Business Plan for 2021–22

Presenter(s): Cassandra Lichnock

Item Type: Information

Date & Time: July 9, 2021 – 15 minutes

Attachment(s): Attachment 1 – CalSTRS 2021–22 Business Plan

PowerPoint(s): None

PURPOSE

The purpose of this item is to provide the board with the CalSTRS Annual Business Plan covering fiscal year 2021–22.

DISCUSSION/SUMMARY

The CalSTRS Business Plan represents a commitment of accountability toward execution of our strategic plan. The board adopted a three-year strategic plan covering fiscal years 2019–22 in March 2019. The 2021–22 Business Plan is the final annual plan in the current 3-year strategic plan cycle.

CalSTRS' Annual Business Plan provides a detailed account of how the strategic plan targets will be attained, and the three-year objectives will be achieved. The business plan includes initiatives that delineate how staff will allocate time and resources to accomplish the board's strategic goals and objectives. The key activities in the business plan lay out an orderly approach to advancing and completing the initiatives.

Accompanying a continued focus on the path toward full funding, the new business plan specifies initiatives and activities to successfully implement the CalSTRS Collaborative Model. Cost savings from effecting this investment strategy will contribute to our full funding goal, and pipeline opportunities will move CalSTRS from a best-in-class organization to a world-leading pension fund. Additionally, the business plan establishes strategic efforts that will drive successful completion of the Pension Solution Project and the Headquarters Expansion Project.

Fiscal year 2020–21 brought unplanned challenges with effects from the pandemic that impacted our ability to accomplish as much work as initially planned due to limitations the work-from-home order imposed. This resulted in pandemic-related delays to some initiatives. Where possible, work has been extended into this new fiscal year to advance the work successfully.

Along with the implementation of a plan that responds to the pandemic’s impact on staff, operations and service delivery, the 2021–22 business plan introduces an initiative with supporting key activities to successfully reopen headquarters and member service centers. Activities include the creation of change management strategies in support of proposed adaptations and the design of new tools to manage a blended workforce.

The 2021–22 Business Plan also introduces several new initiatives to support member service and the timely and accurate payment of benefits. Initiating a Customer Experience Management Program will document customer experience for various member journeys and from an employer perspective. This represents a long-term organizational commitment to the overall customer experience. In support of our mission to secure the financial future and sustain the trust of California’s educators, we will fully develop the employer reporting to final benefit project as a vehicle to address complex issues, increase reporting accuracy and enhance benefit stability.

Our commitment to elevating and incorporating diversity, equity and inclusion into all CalSTRS practices is demonstrated by a new initiative and accompanying activities in this year’s plan. Reinforcing robust DEI programs is an essential component to organizational success in that it fosters higher degrees of engagement, productivity, and innovation.

CalSTRS defines sustainability as the framework that governs our organizational business culture. A commitment to environment, social and governance issues is a key component of the culture, investments, core values and vision of CalSTRS. Our new business plan includes activities that will further develop and advance CalSTRS’ Corporate Sustainability Program as an industry leader. When we view our actions from a sustainable perspective, we make better decisions for the long term. This long-term strategy is intended to build value within our investment portfolio, provide timely and essential member services, minimize operating costs, inspire innovation, and engage our stakeholders.

All of the initiatives in the 2021–22 business plan include specific key activities that will drive the success of these endeavors. Progress on all business plan initiatives and our efforts toward achieving overarching strategic plan goals and objectives is reported annually to the board by means of the Strategic Plan Accomplishments Report. Board members evaluate the status of continuing long-term objectives, initiatives and strategic plan measures.

Accomplishment of CalSTRS’ 2021-22 Business Plan initiatives and activities will have a positive impact on the long-term returns and the payment of benefits to our members.

Upon board review and consideration, staff is prepared to discuss and answer questions on the content of the 2021-22 Business Plan.

CALSTRS

**CALIFORNIA STATE TEACHERS'
RETIREMENT SYSTEM**

BUSINESS PLAN

FISCAL YEAR 2021-22



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OUR MISSION

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

OUR VISION

Your Reward—A secure retirement

Our Reward—Getting you there

OUR CORE VALUES

The CalSTRS Core Values are a set of attitudes, beliefs and behaviors that define CalSTRS and its employees.

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.

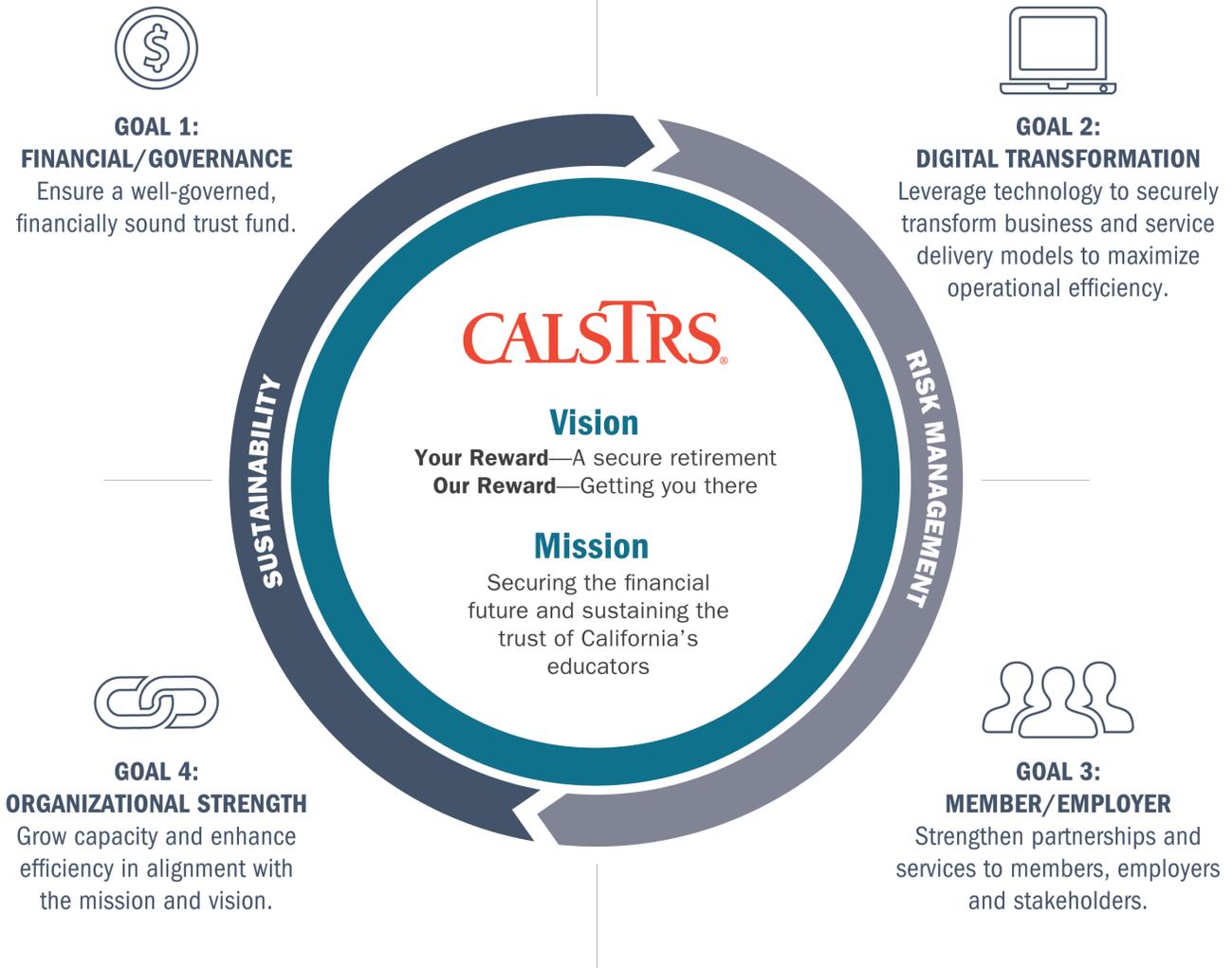
Respect

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.

STRATEGY MAP



GOAL 1: FINANCIAL/GOVERNANCE

Ensure a well-governed, financially sound trust fund.

GOAL 1: OBJECTIVE A

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

INITIATIVE 1

Complete Asset Liability Study. (Completed 2019–20)

INITIATIVE 2

Implement steps toward new long-term asset allocation targets.

Key activities for 2021–22:

- Move toward the long-term target allocation as market conditions and opportunities warrant a shift.
- Prepare for the next Asset Allocation Study to begin in fiscal year 2022–23.

INITIATIVE 3

Monitor and assess funding risk by ensuring future contribution levels are sufficient and actuarial assumptions are appropriate.

Key activities for 2021–22:

- Conduct annual *Review of Funding Levels and Risks* report.
- Perform annual actuarial valuations.
- Monitor projected funding levels and actuarial assumptions through the semiannual Enterprise Risk Management Report.
- Review the board's valuation policies.

GOAL 1: OBJECTIVE B

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

INITIATIVE 1

Integrate environmental, social and governance risks into each investment asset class policy.

Key activities for 2021–22:

- Update relevant investment policies to reflect changes in the Investment Policy for Mitigating Environmental, Social and Governance Risks and Sustainable Investment and Stewardship Strategies policies.

INITIATIVE 2

Evaluate effectiveness of reporting mechanisms and ensure they reach appropriate audience. (Completed 2019–20)

INITIATIVE 3

Implement the board's Low-Carbon Transition Work Plan in the CalSTRS Investment Portfolio to integrate climate risks and opportunities.

Key activities for 2021–22:

- Pilot climate risk analysis and low-carbon transition readiness assessment.
- Conduct physical risk analysis in our Real Estate Portfolio and determine appropriate responses.

- Leverage the Sustainable Investment and Stewardship Strategies private assets portfolio to increase CalSTRS' investments in low-carbon opportunities that are additive to the total fund.
- Enhance low-carbon stewardship activities through proxy voting and engagement.

GOAL 1: OBJECTIVE C

Leverage investment cost information to yield long-term benefits.

INITIATIVE 1

Explore meaningful investment cost and return trend analysis to identify and increase cost savings related to the CalSTRS Collaborative Model.

Key activities for 2021-22:

- Explore ways to effectively communicate investment cost trends for asset classes, including capture ratio analysis as it relates to the CalSTRS Collaborative Model.
- Report on the cost savings derived by implementing the CalSTRS Collaborative Model strategies.

GOAL 1: OBJECTIVE D

Implement investment collaborative model leveraging all of CalSTRS resources.

INITIATIVE 1

Explore investment strategies that provide cost savings and direct control while increasing internal management related to the CalSTRS Collaborative Model.

Key activities for 2021-22:

- Implement the CalSTRS Collaborative Model strategies into each asset class.

INITIATIVE 2

Expand internal business services to support successful implementation of the CalSTRS Collaborative Model.

Key activities for 2021-22:

- Transform business and service processes to maximize operational efficiency in support of the CalSTRS Collaborative Model.
- Provide a report on the progress of the Collaborative Model Pillar Project to the board at least twice a year.
- Develop a plan to transition Pillar Project key performance indicators, as appropriate by pillar, and incorporate into the enterprise Operations Performance Review to monitor business process stabilization and report on outcomes.

INITIATIVE 3

Develop a strategy to support a blended investment workforce with the use of new technologies, operational processes, and infrastructure under a hybrid work environment.

Key Activities for FY 2021-22:

- Perform gap analysis of existing information technology hardware and software to support seamless collaboration and integration for Investment staff in a hybrid work environment.

- Identify enhancements to existing office space to support a blended workforce.
- Recommend satellite office locations that will support a blended workforce and recruitment initiatives to further the investment strategies within the collaborative model.
- Review and enhance the framework to sustain the culture and ensure collaboration, communication, engagement and inclusion in a blended hybrid work environment.

GOAL 1: OBJECTIVE E

Enhance board meeting effectiveness and efficiency.

INITIATIVE 1

Develop a decision chart and workflow to apply a consistent framework for ESG priorities. (Completed 2019-20)

INITIATIVE 2

Develop proposal for new public comment framework and go through the regulatory process. (Completed 2020-21)

GOAL 2: DIGITAL TRANSFORMATION

Leverage technology to securely transform business and service delivery models to maximize operational efficiency.

GOAL 2: OBJECTIVE A

Implement and integrate a highly adaptive pension administration system.

INITIATIVE 1

Complete Functional Rollout 1 successfully.
(Completed 2019-20)

INITIATIVE 2

Continue Functional Rollout 2 activities.

Key activities for 2021-22:

- Continue FR2 user acceptance testing to achieve acceptable pass rates.
- Continue FR2 pre-conversion data conversion and data fallout remediation.
- Continue system implementation readiness activities for FR2.
- Prepare for FR2 go-live.

INITIATIVE 3

Continue Functional Rollout 3 activities.

Key activities for 2021-22:

- Prepare for FR3 contractor acceptance testing.
- Plan and prepare for FR3 user acceptance testing.
- Continue system implementation readiness activities for FR3.
- Prepare for FR3 go-live.

INITIATIVE 4

Prepare and plan change readiness and training activities for internal and external system users.

Key activities for 2021-22:

- Provide organizational change management and readiness support.
- Provide technical support for system and business migration to the new system.
- Draft the sprint to launch plan to prepare, train and measure employer readiness for the final file validation period.

GOAL 2: OBJECTIVE B

Secure the confidentiality and integrity of data and member information.

INITIATIVE 1

Implement a cloud access security broker to secure access and protect data. (Completed 2019-20)

INITIATIVE 2

Procure and implement a cloud-based internet gateway. (Completed 2019-20)

INITIATIVE 3

Procure and implement an enterprise information management tool. (Completed 2019-20)

INITIATIVE 4

Structure CalSTRS information security policies to proactively address risks.

Key activities for 2021-22:

- Engage a third party to develop top-level policy language.
- Prioritize policies and standards.
- Execute roadmap for policy and standards conversion.

INITIATIVE 5

To ensure security controls are met and in alignment with CalSTRS information security policies and standards, procure and implement a governance, risk and compliance tool to automate, improve and streamline information security risk assessments of technology systems and third-party vendors.

Key activities for 2021-22:

- Implement the selected governance, risk and compliance product.

GOAL 2: OBJECTIVE C

Enhance business resiliency capabilities.

INITIATIVE 1

Use multimodal data center solution for business continuity and disaster recovery.

Key activities for 2021-22:

- Prepare new environment and migrate applications to the multimodal data center solution.
- Enhance technology infrastructure to expand remote network capacity and capabilities.
- Establish maintenance and operations plan for applications in new environment.

GOAL 2: OBJECTIVE D

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

INITIATIVE 1

Implement technologies to improve the effectiveness of CalSTRS' business operations.

Key activities for 2021-22:

- Explore solutions to enhance capabilities.
- Develop business cases to outline the rationale for business solution investments and the anticipated benefits.
- Implement technologies to support and enhance business capabilities, processes, services and user experience.
- Implement collaboration tools throughout CalSTRS.

INITIATIVE 2

Research and assess customer relationship management solutions.

Key activities for 2021-22:

- Develop business use cases for customer relationship management solution and implementation strategy.
- Interview business areas and gather business requirements.
- Analyze business use cases and recommend implementation strategy.
- Define supporting business and technical architecture and develop implementation roadmap.

INITIATIVE 3

Complete business intelligence and data warehouse assessment and implementation.

Key activities for 2021-22:

- Develop and issue request for proposal for implementation services.
- Select a business intelligence and data warehouse implementation vendor.
- Establish the business intelligence and data warehouse technical foundation, such as architectures, technical platform and runtime framework.
- Implement business intelligence and data warehouse proof of viable solution for pilot business use cases.

GOAL 3: MEMBER/EMPLOYER

Strengthen partnerships and services to members, employers and stakeholders.

GOAL 3: OBJECTIVE A

Educate and inform CalSTRS constituent groups on strategic priorities.

INITIATIVE 1

Encourage participation and refresh agendas for the Client Advisory Committee.

Key activities for 2021-22:

- Evaluate the effectiveness of the current CAC meeting structure and incorporate feedback to adjust format in a post-COVID environment.

INITIATIVE 2

Develop stakeholder feedback platform. (Completed 2019-20)

INITIATIVE 3

Implement annual communication and outreach plan.

Key activities for 2021-22:

- Review and modify the communication plan to respond to current issues and priorities.
- Create a central message hub.

GOAL 3: OBJECTIVE B

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

INITIATIVE 1

Increase alignment with employers through dedicated collaboration and communication about CalSTRS products, processes and services.

Key activities for 2021-22:

- Leverage communication channels to reach and engage with employers.
- Conduct semiannual reviews of the Employer Partnership Communication Plan and adjust tactics.
- Increase availability of employer and member education modules to relay the value of the CalSTRS Defined Benefit Program.
- Establish an advisory group with employer stakeholders (county business officials and higher-level administrative leaders) to address opportunities to provide education and guidance, and to receive feedback.

GOAL 3: OBJECTIVE C

Increase the accuracy, completeness and timeliness of employer reporting.

INITIATIVE 1

Assess the analytics on high-risk employers to improve financial oversight. (Completed 2020-21)

INITIATIVE 2

Improve financial oversight of employers. (Combined with 3-C-1)

INITIATIVE 3

Implement New File Format. (NFF regulations codified on July 1, 2020)

INITIATIVE 4

Increase key stakeholder visibility of penalties and interest.

Key activities for 2021–22:

- Leverage the newly formed administrative-level advisory group to gather feedback and present information about common penalties and interest situations to develop education or mitigations for those employer decision-makers.

INITIATIVE 5

Develop the employer reporting to final benefit project as a vehicle to address complex issues, increase reporting accuracy and enhance benefit stability.

Key activities for 2021–22:

- Establish project governance.
- Identify and define deliverables for project workstreams.
- Initiate work on identified workstreams and establish targets for completion.
- Design reporting structure.

GOAL 3: OBJECTIVE D

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

INITIATIVE 1

Develop annual member communication plan focused on retirement readiness.

Key activities for 2021–22:

- Increase engagement with part-time educators.

INITIATIVE 2

Produce products and services targeting members aged 44 and younger. (Completed in 2020–21)

INITIATIVE 3

Modernize CalSTRS.com.

Key activities for 2021–22:

- Conduct strategic assessment.
- Develop new design.
- Implement new design.

GOAL 3: OBJECTIVE E

Grow Pension2 participation.

INITIATIVE 1

Grow Pension2 participation by targeting rollovers.

Key activities for 2021–22:

- Sponsor and champion legislation to establish a CalSTRS IRA allowing members to make contributions.
- Launch request for proposal for IRA record-keeping services.
- Develop marketing campaign to implement the CalSTRS IRA into the market with a focus on rollovers.
- Develop and launch training and educational materials for external stakeholders and internal staff around IRA laws and regulations.
- Develop targeted marketing campaign to introduce the CalSTRS IRA.

INITIATIVE 2

Penetrate markets through outreach using hybrid specialists and increasing marketing.

Key activities for 2021–22:

- Implement Statewide Coverage Model.

GOAL 4: ORGANIZATIONAL STRENGTH

Grow capacity and enhance efficiency in alignment with the mission and vision.

GOAL 4: OBJECTIVE A

Develop board and staff competencies to respond to changing business environments.

INITIATIVE 1

Implement mission-critical position plan.

Key activities for 2021-22:

- Implement position profile action plans for prioritized positions.

INITIATIVE 2

Develop learning strategies and resources for a mobile workforce.

Key activities for 2021-22:

- Operationalize and further develop education, learning and resources that support a mobile work environment.

INITIATIVE 3

Establish a framework to support trustee onboarding and development curriculum. (Completed 2020-21)

GOAL 4: OBJECTIVE B

Improve business processes and reduce costs.

INITIATIVE 1

Develop process improvements for service performance objectives and key performance indicators that are not meeting target.

Key activities for 2021-22:

- Collect data and analyze results.
- Refresh Human Resources processes.

- Refresh Procurement processes.
- Develop implementation plan that supports effective and efficient Human Resources processes.
- Develop implementation plan that supports effective and efficient Procurement processes.

INITIATIVE 2

Implement human capital management system solution.

Key activities for 2021-22:

- Implement the core component of the human capital management system, Employee Central and Learning Module.
- Provide training to all staff on use of human capital management software.
- Implement additional approved human capital management components.

INITIATIVE 3

Assess comparative methodologies and implement a cost measuring system for noninvestment activities.

Key activities for 2021-22:

- Complete analysis and provide recommendations to executive staff.
- Socialize the recommendations supported by senior management and develop implementation plan to integrate into the existing strategic planning and performance management processes.

INITIATIVE 4

Increase online member transactions. (Completed 2020-21)

INITIATIVE 5

Develop multiyear capital expenditure plan for information technology projects and Facilities Operations to accurately forecast large capital project expenditures.

Key activities for 2021–22:

- Develop a conceptual model for the multiyear capital expenditure plan.
- Make a recommendation to senior leadership regarding a multiyear capital expenditure plan.
- Complete the new planning process and develop a multiyear capital expenditure plan.

INITIATIVE 6

Deploy a new software solution to compile financial statements.

Key activities for 2021–22:

- Apply the new solution to the preparation of the Comprehensive Annual Financial Report.

INITIATIVE 7

Initiate Customer Experience Management Program.

Key activities for 2021–22:

- Update service performance objectives to consider customer experience.
- Include customer effort as topic of member journey surveys.
- Document customer experience from employer perspective.
- Complete Segmentation Study.
- Establish a cross-functional work group to focus on overall customer experience.

INITIATIVE 8

Advance CalSTRS' Corporate Sustainability Program as an industry leader.

Key activities for 2021–22:

- Engage a sustainability expert to evaluate the current CalSTRS program and benchmark against peer and premier sustainability organizations.
- Partner with leaders, board and board consultant to integrate and align sustainability program goals throughout the CalSTRS 2022–25 Strategic Plan.
- Define a path to unify enterprise and investment sustainability programs.
- Develop a five-year plan for advancing the CalSTRS Corporate Sustainability Program.

GOAL 4: OBJECTIVE C

Drive adoption of transforming business processes and technology.

INITIATIVE 1

Train employers in preparation for soft launch and Functional Rollout 2.

Key activities for 2021–22:

- Prepare the employer training plan as part of the final file validation period.

INITIATIVE 2

Train employees in preparation for Functional Rollout 1 soft launch. (Completed 2019–20)

INITIATIVE 3

Train employees in preparation for Functional Rollout 2 and 3.

Key activities for 2021–22:

- Prepare for FR2 training for business areas as needed.
- Prepare the FR3 Train-the-Trainer program.
- Prepare FR3 training for business areas as needed.

INITIATIVE 4

Develop and implement a plan that responds to the pandemic's impact on staff, operations and service delivery.

Key activities for 2021–22:

- Identify new, evolving and innovative collaboration tools to leverage in both a remote and physical work environment.
- Identify business functions and units that can work entirely remotely, entirely onsite or a blend of both.
- Design the physical workspace to facilitate collaboration in both physical and remote environments.

INITIATIVE 5

Reopen headquarters and member service centers.

Key activities for 2021–22:

- Create a blended work model.
- Develop governance framework.
- Communicate the value of in-person collaboration.
- Create change management strategy for success.
- Design tools to manage a blended workforce.

GOAL 4: OBJECTIVE D

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

INITIATIVE 1

Develop and execute classification and compensation strategy plan to support the CalSTRS Collaborative Model.

Key activities for 2021–22:

- Review and update key investment management classifications in support of the CalSTRS Collaborative Model.
- Conduct assessment of compensation program in alignment with the CalSTRS Collaborative Model.
- Assess current Investment Branch organizational structure for future state in support of the CalSTRS Collaborative Model.
- Review and update onboarding, development and performance resources aligned with refreshed competencies.

INITIATIVE 2

Implement statewide classification consolidation recommendations. (Completed 2019–20)

INITIATIVE 3

Implement human capital and Pension Solution business alignment plan.

Key activities for 2021–22:

- Develop a work plan for resource alignment and associated budget needs.
- Identify staff supporting the Pension Solution project whose roles will transform post-implementation.

INITIATIVE 4

Execute targeted Headquarters Expansion Project deliverables on budget.

Key activities for 2021–22:

- Monitor change orders.
- Evaluate ongoing expenditures.
- Participate in ongoing design coordination and oversight workgroups.
- Monitor construction costs through monthly reconciliation reports.

INITIATIVE 5

Execute targeted Headquarters Expansion Project deliverables on time.

Key activities for 2021–22:

- Ensure timely approvals of change requests, submittals and completed designs.
- Minimize changes to permitted architectural plans.
- Provide ongoing evaluation of staffing resources to effectively meet schedule.
- Revise staff occupancy analysis to align with a blended workplace model.
- Implement change management activities to support workplace transition.
- Evaluate and implement construction phasing alternatives.

INITIATIVE 6

Incorporate diversity, equity and inclusion into all CalSTRS practices.

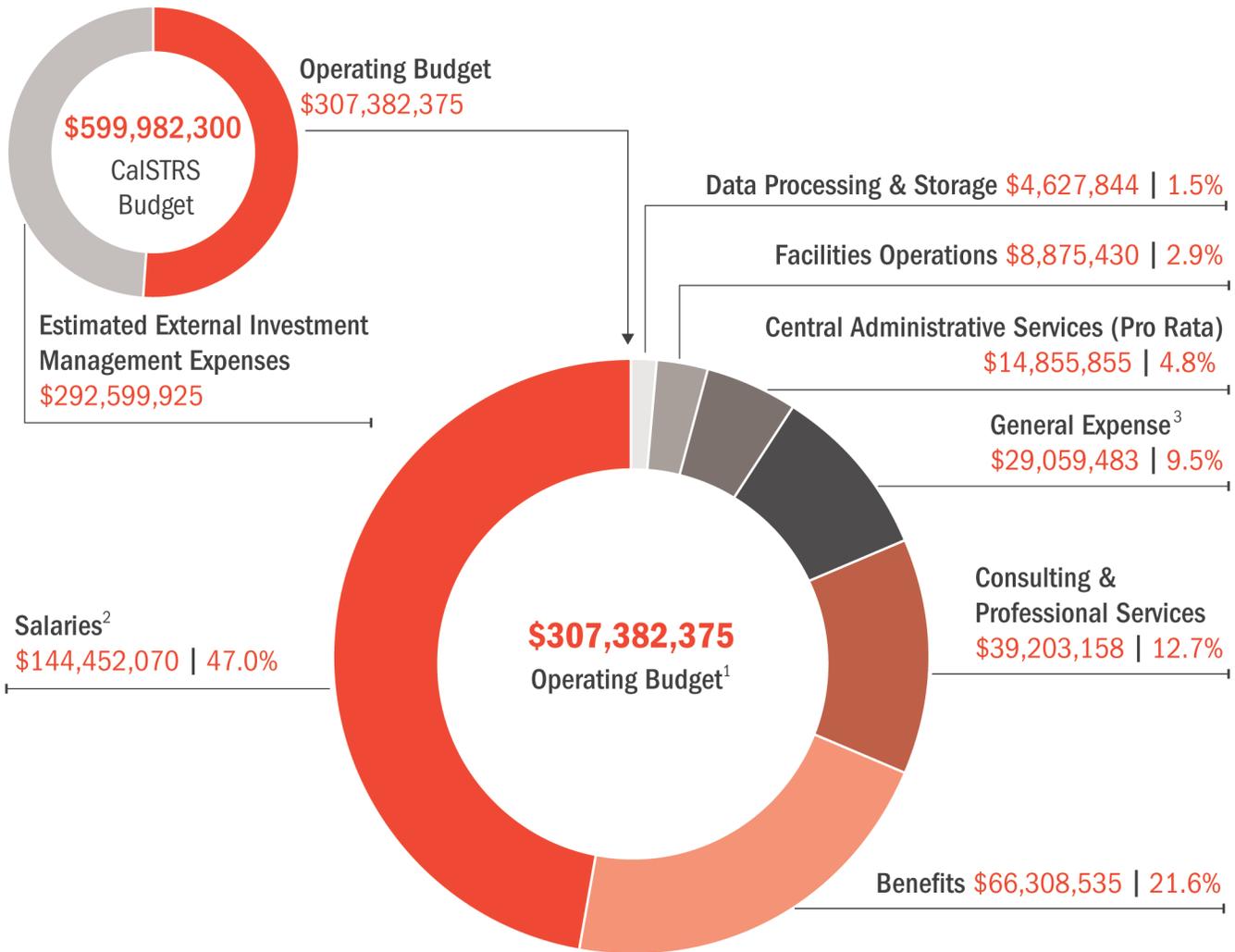
Key activities for 2021–22:

- Engage a diversity, equity and inclusion industry expert to conduct an assessment, make recommendations and create a roadmap.
- Establish success measures.
- Identify roles and responsibilities in support of the program.
- Develop a plan for community outreach and partnership building.
- Identify opportunities for mentorship toward a greater climate of inclusion.
- Build a process for regular reassessment of program goals and accomplishments.
- Review current recruitment strategies and processes for areas of improvement or strengthening.
- Identify best practice benchmarks and create benchmarks for success, including management participation and support.

BUDGET AND RESOURCES

The 2021–22 Operating Budget is as of the date of this report and is anticipated to change pursuant to the proposed Budget Act of 2021. The precise impact of these adjustments may not be known until the fall of 2021 and will be incorporated into this document at that time.

OVERVIEW FY 2021–22 CALSTRS BUDGET

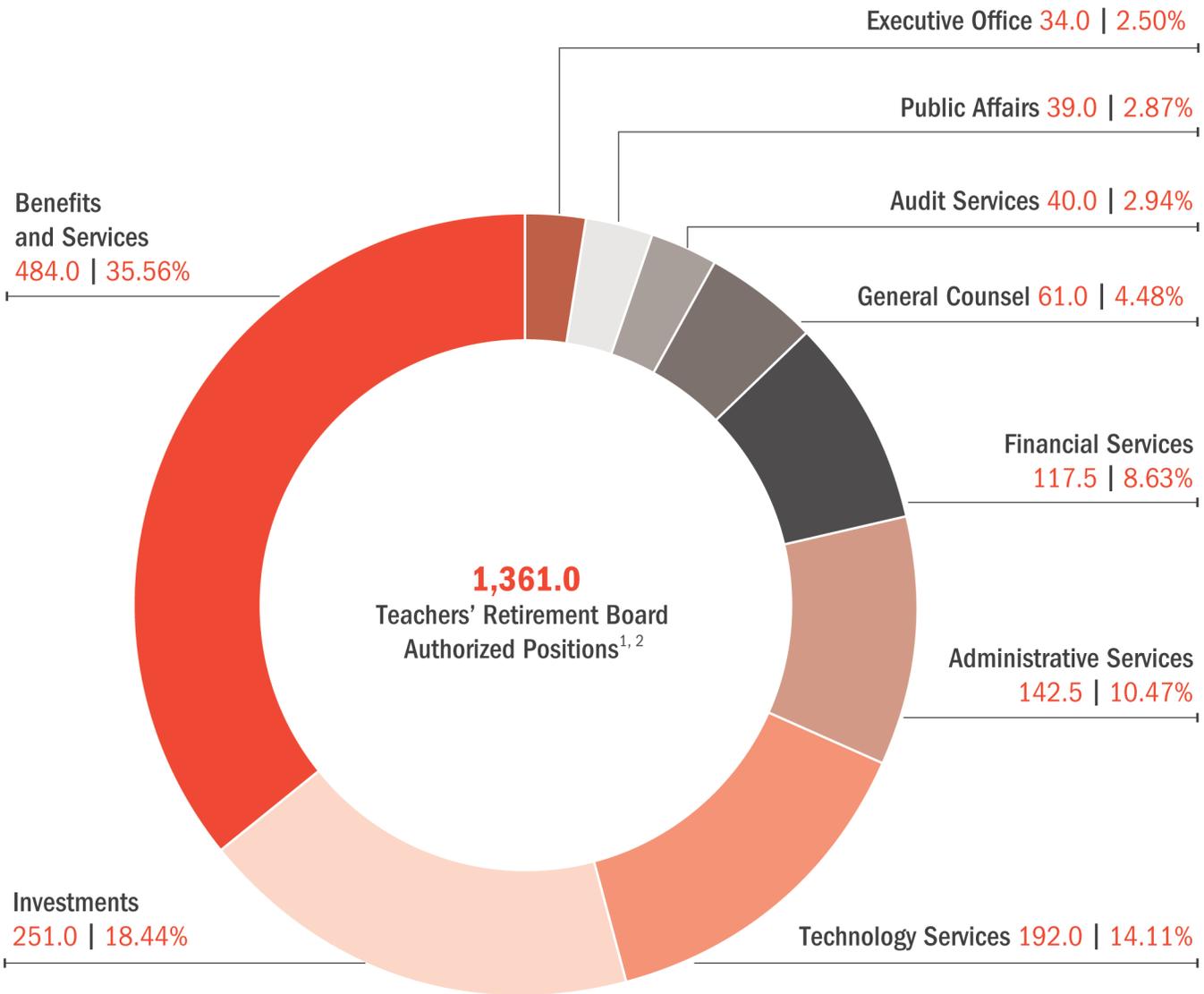


¹ As part of the state's response to address the fiscal impact of the global COVID-19 pandemic on California's economy, the Administration enacted a permanent efficiency reduction in most state operational expenditures, pursuant to the Budget Act of 2020. As a result, the 2021–22 board-approved budget was revised from \$309.8 million to \$307.4 million.

² Figure includes salaries for authorized positions (\$120.3M), incentives (\$21.6M), overtime (\$0.2M), and blanket positions (\$2.4M).

³ Figure includes printing, communications, postage, insurance, travel in/out state, training, indirect cost, equipment over \$5K, and special items of expense.

FY 2021-22 AUTHORIZED POSITIONS BY BRANCH



¹ Figure includes blanket positions.

² In support of the CalSTRS Collaborative Model, the Multi-Year Internal Investment Management Plan established 109 authorized positions, to be dispersed across fiscal years 2021-22 through 2025-26. Of the total, the 2021-22 Operating Budget includes 30 positions. The remaining 79 positions will be dispersed across fiscal years 2022-23 through 2025-26.



P.O. Box 15275
Sacramento, CA 95851-0275
800-228-5453
CalSTRS.com