

CalSTRS funding plan remains strong despite global economic turbulence

CalSTRS remains ahead of schedule in its goal to reach [full funding](#) by 2046 amid global economic uncertainty.

This good news is one of the key findings from the seventh annual [Review of Funding Levels and Risks report](#) presented to the board at the November 2022 meeting.

The report helps assess the soundness and sustainability of the CalSTRS Defined Benefit Program and tracks CalSTRS' progress toward achieving full funding. This year's breakdown is based on the June 30, 2021, [actuarial valuation](#) of the Defined Benefit Program and reflects relevant changes that have occurred since the valuation, including the increase of public educators joining payrolls statewide.



In addition, the record-breaking 27.2% investment return from fiscal year 2020–21 continues to positively

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CalRTA volunteer hours provide priceless benefit



California Retired Teachers Association President Ron Breyer, center, and Vice Chair of the CalRTA Government Relations Committee Kathy Kinley, right, present CalSTRS Chief Executive Officer Cassandra Lichnock with a symbolic check for nearly \$69 million. The check represents almost 2 million hours of volunteer service retired teachers gave in 2021 to benefit schools, students and communities throughout California. The dedication of retired educators continues to support California and its future.

November TRB meeting online



See the November 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

Denise Bradford
K-12 Classroom Teacher

Michael Gunning
Public Representative

Fiona Ma
Ex Officio Member, State Treasurer

William Prezant
Public Representative

Joe Stephenshaw
Ex Officio Member, Director of Finance

Ken Tang
School Board Representative

Tony Thurmond
Ex Officio Member, State Superintendent of Public Instruction

Jennifer Urdan
Public Representative

Karen Yamamoto
Retiree Representative

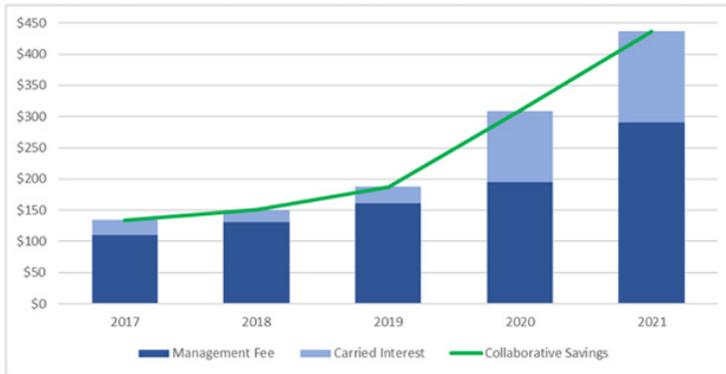
Betty Yee
Ex Officio Member, State Controller

Collaborative Model strategy has saved more than \$1.2 billion

Investment costs are an important factor in the performance of the CalSTRS Investment Portfolio, and the [CalSTRS Collaborative Model investment strategy](#) has saved CalSTRS more than \$1.2 billion since 2017.

As part of the annual cost report to the Teachers' Retirement Board's Investment Committee, staff outlined how the Collaborative Model has saved the fund an average of more than \$240 million annually. The Collaborative Model focuses on managing more assets internally—to reduce costs, control risks and increase expected returns—and leverages CalSTRS' external partnerships to achieve similar benefits.

Overall savings per year (\$ millions, since 2017)



While investment costs can fluctuate significantly each year, CalSTRS is a long-term investor and looks at the cumulative impact of these management fees and carried interest (profit-sharing that investors pay in some partnerships).

Total portfolio costs in dollars increased last year, but they increased at a lower rate than the value of the fund. These costs include management fees and internal operating costs, which rise in dollar amounts as the net asset value increases. The CalSTRS Investment Portfolio grew by 29% in 2021, while the fees grew by 20%. The Collaborative Model reduced portfolio costs by 9%, much of it from co-investments, which have lower fee structures. In general, it costs more to manage investments externally than internally.

In addition, CalSTRS' investment costs were below those paid by peers, given an identical asset mix.

Managing costs is an integral part of CalSTRS' investment decision-making process and is an [investment belief](#) adopted by the board. Staff will continue to look for opportunities to grow the fund and cut down on costs on behalf of California's public educators.

The [full cost report](#) is available online.

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impact the Teachers' Retirement Fund and the CalSTRS Funding Plan, even after the negative return from the following fiscal year.

The CalSTRS Investment Portfolio remains strong during this period of soaring inflation and the war in Ukraine, but ongoing risks remain and will be monitored. The full report also focuses on the current risk environment, measuring the funding plan's maturity and volatility, and CalSTRS' ability to meet pension obligations under different hypothetical scenarios.

Overall, the report demonstrates that CalSTRS is financially stronger today than after the global financial crisis of 2008 and better positioned to handle future risks because of the funding plan.

Key next steps for CalSTRS include:

- **Adoption of contribution rates for fiscal year 2023–24:** In May 2023, the Teachers' Retirement Board will review the results of the annual actuarial valuation of the Defined Benefit Program and will set the contribution rates for the state and the employers for next fiscal year. Neither the state nor the employer contribution rates will need to be increased in fiscal year 2023–24 to keep the funding plan on track.
- **Asset Liability Management Study:** The process of analyzing CalSTRS' asset allocation and actuarial assumptions, which typically occurs every four years, began with a discussion of the ALM Study at the November meeting (see the asset study article in this newsletter [on page 3](#) for more details). The Teachers' Retirement Board is expected to adopt a new asset allocation in the summer of 2023. The ALM Study will conclude in early 2024 when the board will be presented with the findings of the review of actuarial assumptions.
- **Report to the Legislature on the progress of the CalSTRS Funding Plan:** CalSTRS is required by statute to provide a funding plan progress report to the California Legislature every five years. The [first report](#) was completed in June 2019; the next report is due in June 2024. The report educates the Legislature about the funding plan, the health of the CalSTRS Investment Portfolio, and the risks encountered in maintaining the Defined Benefit Program. For the next progress report, the board will have the opportunity to discuss whether improvements should be recommended to further strengthen the funding plan.

Asset study ensures responsible investment practices and strategies

Once every four years, the Teachers' Retirement Board reassesses the CalSTRS Investment Portfolio and how its assets are allocated. Known as the Asset Liability Management Study, this yearlong process ensures responsible investment practices and strategies that allow CalSTRS to meet pension obligations to more than 1 million members.

The board's Investment Committee started the process at their November 2022 meeting with a [high-level overview](#).

A collaboration between internal investment and actuarial staff and the board's external consultants, the study includes reviewing benefits owed to CalSTRS members and the funding structure for meeting those benefit obligations.

Under the [CalSTRS Funding Plan](#) and current assumptions, CalSTRS expects investment returns to be the largest contributor to its ability to pay benefits over the next 30 years and beyond and to reach full funding by 2046. For every dollar a retiree receives in pension benefits, about 62 cents comes from investment returns. While benefit payments and contributions are set, short-term investment returns are more volatile due to normal market fluctuations that can cause significant swings in any given year.

CalSTRS does not expect major changes to current allocations; however, the study will look into expanding opportunities in two areas: private credit and an Opportunities Portfolio.

The area for growth in private credit is direct lending that focuses on quality mid-sized companies. Many banks no longer lend to mid-sized companies, and CalSTRS is exploring whether opportunities exist to help further diversify the portfolio through direct lending.

The Opportunities Portfolio would expand the Innovative Portfolio, which incubates new ideas into investments that don't easily fit into individual asset classes currently in the portfolio. Some investment opportunities might cross asset classes, and the Opportunities Portfolio would allow CalSTRS to invest in those areas.

CalSTRS announces LeBlanc as new retirement readiness director

Chief Executive Officer Cassandra Lichnock announced the hiring of Kate LeBlanc as retirement readiness director at the November meeting.

In this role, LeBlanc provides direction on the development and execution of financial education, services and outreach efforts for CalSTRS members and employers; develops and manages a combined \$18 million annual program budget; and serves as a senior leadership representative on CalSTRS' governance councils and organizationwide forums.



Kate LeBlanc

LeBlanc joins CalSTRS from the California Public Employees' Retirement System, where she oversaw customer education and outreach programs, including member and employer education, external communications, and internal training services for the contact center and regional office representatives.

LeBlanc spent nearly a decade at CalPERS, where she held senior leadership positions in customer service and support, and managed teams responsible for budgets totaling nearly \$100 million and personnel transactions for more than 900 positions.

LeBlanc reports to Chief Benefits Officer Bill Perez; her first day was Monday, November 7. She replaces Sandy Blair, who served as retirement readiness director from 2016 until 2022.

Next board meeting dates:

January 25–26, 2023 (West Sacramento)

For written board meeting items and video archives of past meetings, go to CalSTRS.com/teachers-retirement-board.

Written by Barbara Zumwalt, Thomas Lawrence and Mindy Selby

