Funding Levels Risk

Funding risk measures related to the probability of reaching full funding and the probability of seeing low funding levels were used to help evaluate the possible impacts of allocating to the ACWI LCT index.

While the path of performance can be very different across climate scenarios, there are very modest long-term differences in the probability of achieving full funding in differing NGFS scenarios. The lack of large variation in the long-term funded status is a product of the assumptions used and the TRB rate setting authority provided by the CalSTRS Funding Plan. In scenarios where returns are negatively impacted, funding progress can generally be kept on schedule if the TRB exercises its authority to increase the state contribution rate.

There is also very little difference in the risk of low funding for all allocation levels to the ACWI LCT index and different climate scenarios. In Orderly Transition scenarios, larger allocations to the ACWI LCT index would lead to small improvements in the risk of low funding while reducing emissions. In Disorderly Transition scenarios, larger allocations also reduce emissions but result in a slightly higher risk of low funding.

Contribution Rate Risk

Since allocating to the ACWI LCT index is not expected to materially impact the assumed rate of return, it is anticipated that the contribution rate for teachers will remain the same. Similarly, it is also anticipated that the contribution rate for school districts will not be materially impacted. This is caused by the mechanics of the CalSTRS Funding Plan which results in investment performance impacting mostly the state contribution rate. For this reason, the analysis was focused on the probability of seeing higher contribution rates for the state.

Like the results found with the risk of low funding analysis, the Fund benefits from a larger allocation to the ACWI LCT index in Orderly Transition scenarios as larger allocations slightly improve the risk of high state contribution rates and decrease emissions. In the Disorderly Transition scenarios, larger allocations reduce emissions but introduce greater risk of higher state contribution rates.

Summary

The lack of large swings in the long-term funding and contribution rates is a product of several factors, including:

- The assumption that the ACWI LCT index experiences periods of outperformance and underperformance in each of the scenarios
- The risk-controlled nature of the ACWI LCT index, which should limit the risk relative to the broad market index