

## Investment Choices Secure CalSTRS Fund

Educators in California depend on CalSTRS to secure their financial futures by investing their retirement money. In order to provide retirement benefits for decades to come, our investment strategy must evolve with the world's financial markets.

Every four years, CalSTRS completes an [asset liability management study](#), which evaluates the system's liabilities and provides a guide on how to achieve the returns we need to fund member pensions. These returns are critical because historically 60 cents of every pension dollar have come from our investments.

At the board's November meeting, CalSTRS approved an updated asset allocation that will be effective the next four years.

The new allocation strikes a prudent balance between risk and return and adjusts how the funds are distributed among asset classes.

Strategic Class	Asset Class	New Allocation	Current Long-term Target	Percentage Change
<b>Economic Growth</b>	Global Equity	42%	47%	-5%
	Private Equity	13%	13%	None
<b>Real Assets</b>	Real Estate	15%	13%	2%
	Inflation Sensitive	6%	4%	2%
<b>Diversifying</b>	Risk Mitigating Strategies	10%	9%	1%
	Fixed Income	12%	12%	None
	Cash/Liquidity	2%	2%	None

There are three key changes to the asset class allocation:

- A reduction in public equity from 47% to 42%
- An increase in real estate from 13% to 15%
- An increase in inflation sensitive (such as infrastructure, agriculture and timber) from 4% to 6%

Emphasizing tangible, income-driven assets such as real estate provides a long-term diversification benefit for CalSTRS. This decision also adds more to the Risk Mitigating Strategies asset class with the goal of reducing the impact of stock market volatility on the fund.



## Dana Dillon Retires

The November 2019 meeting was Dana Dillon's last on the Teachers' Retirement Board, where she has served since being elected in 2003. Dillon, who is retiring this spring after 36 years with the Weed Union Elementary School District, previously served as CalSTRS Board Chair and Vice Chair. She has also served as state council representative, director on the National Education Association board of directors, chair of the California Teachers Association's Retirement Committee and as a member of the CTA board of directors. Dana has

been steadfastly committed to serving CalSTRS members and will be sorely missed, but she's not going far. Dillon will represent retired members of the CTA.

## Check out the new Board Highlights video online

CalSTRS Funding Levels and Risks and Annual Investment Cost reports are both pivotal topics for California's educators. [calstrs.com/video/teachers-retirement-board-november-2019-highlight](http://calstrs.com/video/teachers-retirement-board-november-2019-highlight)

"Our member benefits are paid from net returns, so it's important to measure our costs throughout the entire portfolio."

– Debra Smith,  
Chief Operating Investment Officer

## Board Members

Sharon Hendricks  
Chair

Harry M. Keiley  
Vice Chair

Dana Dillon  
K-12 Classroom Teacher

Keely Bosler  
Ex-Officio Member, Director of Finance

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

Nora E. Vargas  
School Board Representative

Karen Yamamoto  
Retiree Representative

Betty Yee  
Ex-Officio Member, State Controller

## CalSTRS Monitors Funding Levels and Risks

CalSTRS continually monitors the financial health of the Teachers' Retirement Fund to ensure we can pay retirement benefits to past, current and future educators in California.

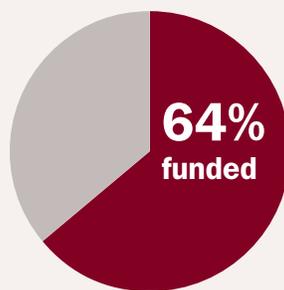
The [CalSTRS Funding Plan](#), passed into law in 2014, put the [CalSTRS Defined Benefit Program](#) on the path to full funding by 2046 through shared, incremental contribution rate increases. CalSTRS presents on the progress of the funding plan biannually—in the spring through the annual actuarial valuation process and in the fall through our annual funding levels and risk report.

The 2019 Review of Funding Levels and Risks report was presented to the Teachers' Retirement Board at its November meeting. The most important takeaways are:

**1. Additional state contributions to CalSTRS improved funding levels and mitigated contribution rate increases:**

As part of the 2019–20 state budget, the state provided an additional \$2.246 billion to CalSTRS on behalf of employers and \$1.117 billion on behalf of the state. The additional contributions provided immediate financial relief to school districts and paid down portions of the unfunded liability for both employers and the state.

**Status of Teachers' Retirement Fund (as of June 30, 2018)**



- 2. The Defined Benefit Program continues to mature, meaning the active-to-retiree member ratio is approaching 1:1:** This is a common phenomenon of pension plans across the United States, especially considering the rapid rate of retirement of the baby boomer generation. CalSTRS monitors the plan's maturity level because a lower active-to-retiree ratio increases the system's sensitivity to investment return volatility.
- 3. The largest risk to CalSTRS' ability to reach full funding continues to be investment volatility:** CalSTRS assumes a 7% return on our investments in order to fund retirement benefits. If returns do not meet our assumptions, the unfunded liability increases and additional contributions are needed to bridge the funding gap.
- 4. CalSTRS is monitoring other risks that may impact the system's ability to reach full funding:** These risks could include a decrease in active membership, lower than anticipated increases in future payroll or improvements in longevity greater than currently anticipated. CalSTRS makes a series of assumptions about the future to set contribution rates for today. Contribution rates and funding levels could be impacted if CalSTRS' assumptions do not materialize as expected.

CalSTRS is making steady progress toward full funding, as explained in CalSTRS' first report on the progress of the [funding plan](#).

## Annual Survey Analyzes Retirement Readiness

CalSTRS has conducted an [Annual Member Survey](#) over the past 15 years to gauge educators' satisfaction with our customer service.

This year's survey incorporated a new research initiative to assess active and retired members' retirement planning and their perceived financial retirement readiness.

We learned that member confidence with meeting their financial needs in retirement improves with age. Retired members who feel well prepared have made proactive choices, such as paying off the mortgage of their primary residence.

Retired CalSTRS members report saving extra money through supplemental retirement savings plans such as the [Pension2®](#) program—which offers traditional and Roth 403(b) and 457(b) options.

It is important for members to understand how to best prepare for retirement early. Similar to life's other big expenses—buying a home, raising a child or paying for college—the key is to plan early and well for retirement.

Developing a lifetime relationship with members is an important aspect to serving members well. To achieve this, CalSTRS strives to provide quality products and services.

Sixty-five percent of members surveyed were highly satisfied with CalSTRS overall, which is consistent with recent years' survey results. Younger educators (ages 20-29) tend to have fewer interactions with CalSTRS, and their opinions are largely neutral toward the organization.

The annual survey provides important feedback for CalSTRS to continuously improve customer service and outreach.

**Next board meeting dates:**  
January 29–31, 2020 West Sacramento

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

**CALSTRS**

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For more information on board meeting items and video archives, visit [www.CalSTRS.com/teachers-retirement-board](http://www.CalSTRS.com/teachers-retirement-board)