



Regular Meeting

Item Number 13 – Open Session

Subject: Chief Executive Officer Report

Presenter(s): Cassandra Lichnock

Item Type: Information

Date & Time: September 2, 2021 – 15 minutes

Attachment(s): None

PowerPoint(s): None

1. CalSTRS 403bComply Program

In November 2019 the 403bComply program secured Executive approval to proceed in approaching our vendor TCG Administrators to purchase CalSTRS' interest in the CalSTRS 403bComply program. Retirement Readiness staff along with CalSTRS legal, procurement, budgets and External Legal partners have facilitated a sale transaction with TCG Group Holdings. Effective June 1, 2021, CalSTRS and TCG Group Holdings entered into a purchase and sale agreement selling CalSTRS interest in the 403bComply program. Revenue payments will continue to be received over a 24-month term per the agreement. The 24-month period will also allow TCG and CalSTRS to partner on efforts transitioning movement of school district or COE contracts to be re-signed directly to TCG as the new compliance vendor, with CalSTRS exiting the relationship.

In 2004 the Internal Revenue Service proposed sweeping new regulations for codes governing 403(b) marketplace and in 2006, Assembly Bill 2462 was introduced that allowed for the creation of compliance administrator to offer services to school employers at a reasonable cost. CalSTRS developed a 403(b) Comply program to influence the compliance marketplace and to keep the cost of compliance down by offering a low-cost service. The effect of having the CalSTRS option was immediately felt in the 403(b) marketplace as existing players had to lower their costs to be competitive. While 403(b)Comply program has been successful in bringing a high quality, low-cost compliance option to California schools, today's marketplace has drastically shifted and we have found that our 403bComply product is no longer competitive.

The rationale for entering into the sale agreement with TCG Administrators is the following:

- 1) Revenue generated from the program is not enough to fully fund the needed position to provide proper program oversight and contract management.

- 2) Due to CalSTRS' involvement in the program, it is difficult to be successful in gaining new business.
- 3) CalSTRS needs to be able to provide fiduciary education to school district business officials.
- 4) CalSTRS is fully reliant on a vendor as a partner to execute the business model.

First, the 403bComply program, with its limited growth potential, does not provide enough revenues to employ a full-time staff person that is desired to provide the proper oversight for the program. In 2016, the 403bComply program added a staff resource to manage the program and relationship with TCG. In 2018, this position was moved to a different business area. Since this time, we have been working with existing staff (John Schiffler and Kevin Kirkpatrick) to fill this gap, taking away from their focus on Pension2. The revenue stream currently cannot support the staffing model needed to mitigate risk and business need.

Second, the ability for CalSTRS to gain new business is difficult for a variety of reasons beyond CalSTRS' control. In November 2016, TCG hired a Western States Sales Manager who has since left his position as of August 2019. To date this position has not been filled. The position's responsibilities are to market 403bComply to potential new districts and manage relationships with existing 403bComply districts. The program has concerns around this position's sales responsibilities about selling other TCG products under the umbrella of the CalSTRS 403bComply program. Although program expectations have been made very clear regarding sales activities, monitoring the sales manager while at the districts is very difficult. In addition, school districts or COEs want a compliance vendor that offers a wide variety of financial services which TCG is unable to do while having CalSTRS as a partner. TCG will have better opportunities to grow the compliance service without CalSTRS as their partner.

Third, CalSTRS needs to be the voice of reason in this environment. We need to lead the charge in education when it comes to retirement savings. To do this, we need to remove ourselves from the marketplace regarding the compliance industry so that we do not have any conflicts.

Finally, CalSTRS offering the compliance program is fully dependent on having a partner that can facilitate the service. CalSTRS does not have the staffing or systems in place to execute this service. At the last RFP, TCG was the only vendor that submitted a bid. Therefore, there is risk that when the current the contract term ends, CalSTRS would be forced to shut down the 403bComply business if TCG chooses not to apply. This will place CalSTRS in the position of still terminating the program but without realizing any monetary gains as well as sustaining potential reputational risk to the organization.

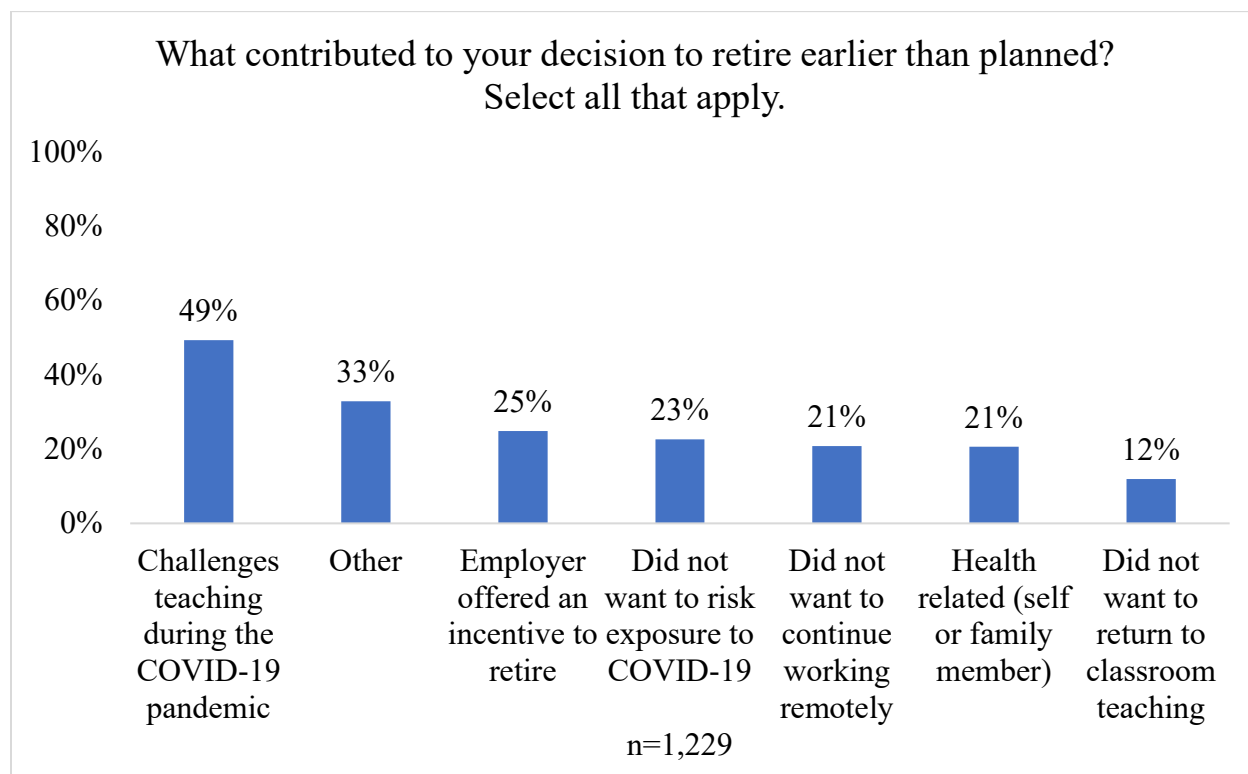
We are pleased to continue our partnership with TCG as we transition the 403bComply business to them and securing our long-term continued partnership.

2. Member Retirement Spike at Mid-Year Not Sustained at Year-End

As reported in the [January 2021 CEO Report](#), the number of service retirement benefits established for July 2020 through December 2020 demonstrated a significant increase over comparable periods in the prior four years. Members who retired within this timeframe were surveyed and of the 517 responses, 62% indicated they had retired earlier than planned. The respondents cited challenges related to teaching during COVID-19 as the primary contributing factors.

Surveying members upon retirement continued through the end of the 2020–21 fiscal year. In total, 2,419 responses were received. Relative to responses in the first half of the fiscal year, the aggregated response from the entire fiscal year showed a decrease in retirees reporting they retired earlier than planned—down to 52%.

Challenges teaching during COVID-19 continued to lead the list of reasons for retiring earlier than planned, but decreased to 49% compared to 56% in January. The Other category rose to second on the list at 33%, but was similar to the 29% in January. Employer retirement incentives nearly doubled to 25%, up from 13% in January. Disinterest in remote work and COVID-19 risk exposure concern both dropped to the low 20%, down from 35% in January. Respondents could select as many options as applied to their situation.



The number of service retirements for the 2020–21 fiscal year came in approximately 8% higher than the previous fiscal year, which is lower than the earlier six-month trend suggested.

The data suggests COVID-19 had an impact on the distribution of the timing of retirements during the year. The first quarter of the 2020–21 fiscal year saw increased retirements, while the fourth quarter saw lower levels compared to recent years. The uncertainty and unpredictable nature of the COVID-19 situation presents unique challenges when trying to predict member retirement patterns.

3. Corporate Sustainability

As we continue to advance our sustainability efforts, we have engaged with an external consultant the [ISOS Group](#), who will assist in advancing our corporate sustainability efforts. ISOS Group is a GRI Certified Training Partner, CDP Accredited Provider and participant in the SASB Consultant Content Program. They are a women-owned California benefit corporation and Certified B Corporation based in San Diego. [Certified B Corporations](#) are businesses that meet the highest standards of verified social and environmental performance, public transparency, and legal accountability to balance profit and purpose.

ISOS Group will:

- Assess our current Corporate Sustainability program and benchmark with peers and best practice organizations.
- Assist with integrating sustainability throughout the upcoming 2022–25 Strategic Plan.
- Create a five-year roadmap for corporate sustainability and a strategic communication plan.
- Review our sustainable development measures and provide guidance on improving disclosure.
- Inform CalSTRS as multiple sustainability frameworks and standards converge.

Internally, we are also working towards greater alignment of our Investments and Corporate Sustainability strategies. We want to continue to be a forward-thinking model of ESG behavior and sustainable leadership.”

4. Employer Reporting to Final Benefit Project

Workstreams continue to make progress on assessing business processes and identifying recommendations to the project sponsors. Jeff Zimmer has been asked to serve as the project’s business lead. His role is to integrate the information and outcomes and to facilitate core decisions and recommendations, including coordinating stakeholder feedback through the most appropriate workstream. Staff continue to meet with stakeholders and present concepts and proposals from the workstream process. Draft Employer Audit Appeals regulation language has been provided to groups for feedback, and staff presented data to inform a discussion about a potential benefit finalization period.

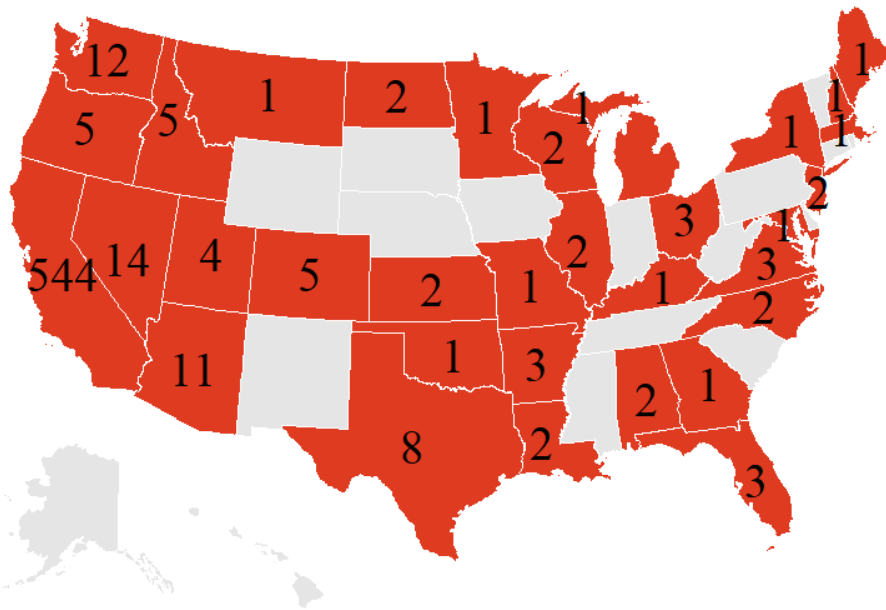
Staff remain committed to exploring improvements that reduce the risk of an inaccurate benefit and improve employers’ ability to report accurately. Discussions with member and employer groups have centered around their coalition’s set of concept beliefs that may result in legislative, regulatory, policy or process change proposals. Their shared priority is ensuring retirees are not held responsible for overpayments. CalSTRS has stated there are legal issues that impede our ability to meet that priority. A tax opinion from outside legal counsel is pending and will be shared with the group for their review and feedback. Any proposals requiring board approval may require ongoing discussions in order to address existing complexities and alleviate unintended consequences.

5. CalSTRS Member COVID Deaths Update

CalSTRS staff continue to monitor COVID-related member deaths each month. Following the statewide spikes in December and January, cumulative deaths have slowed down, reaching 649 through May 15 (the latest date of death reported). Approximately 85% of retired CalSTRS members live in California, whereas California retired member deaths represent 82% of total retired member deaths in the United States.

CalSTRS Member COVID Deaths through May 15, 2021

Total Deaths: 649 | International: 1 | Female: 329 | Male: 320

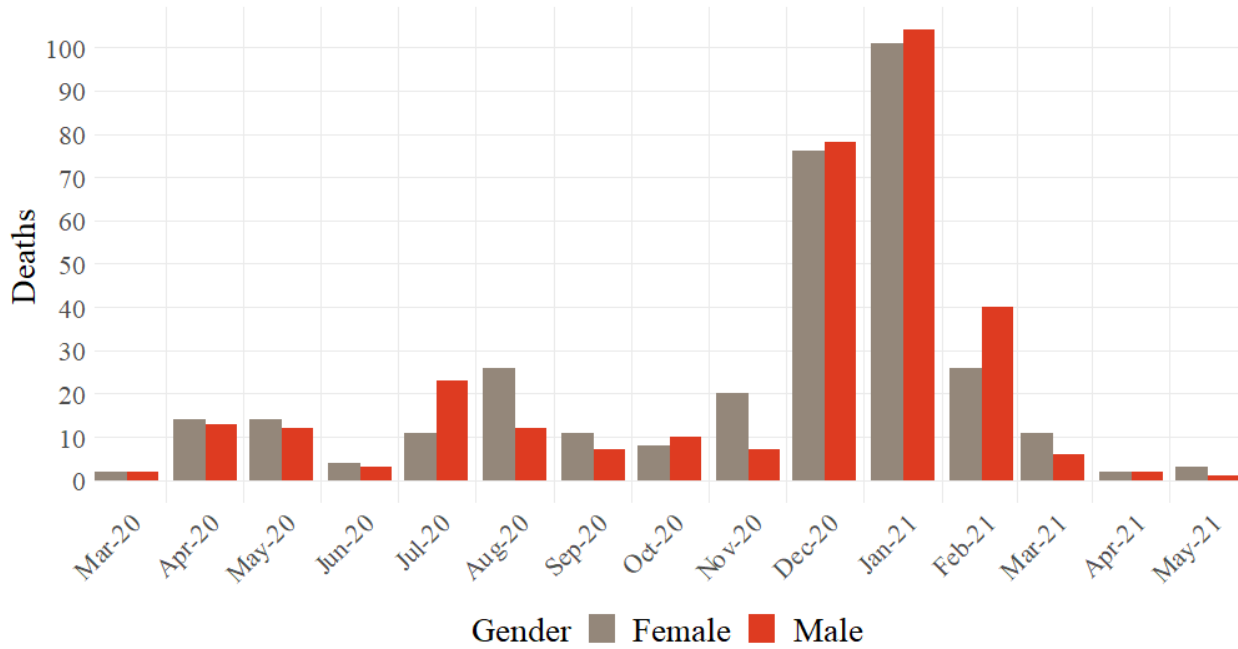


Counts exclude 139 beneficiary, nonmember and refund deaths.

Retired member deaths represent 91% of CalSTRS member deaths—592 retired deaths compared to 57 active deaths. The CalSTRS member population is split approximately 70% female and 30% male, while the proportion of deaths is split 51% female and 49% male. The average age of death due to COVID-19 is 85 for retired females and 82 for retired males. The average age of death is 53 for active females and 59 for active males.

CalSTRS Member COVID Deaths by Gender and Month

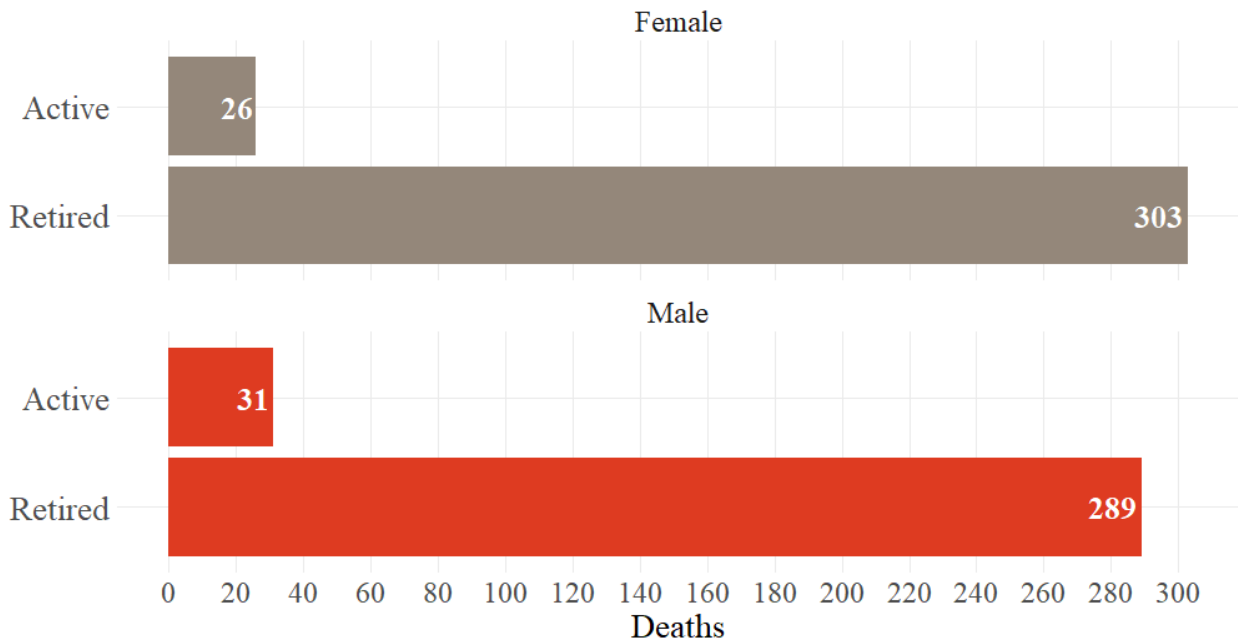
Total Deaths: 649 | Female: 329 | Male: 320



Data through May 15, 2021, and excludes 139 beneficiary, nonmember and refund deaths.

CalSTRS Member COVID Deaths by Gender and Account Status

Total Deaths: 649 | Female: 329 | Male: 320



Data through May 15, 2021, and excludes 139 beneficiary, nonmember and refund deaths.

With regard to deaths from all causes, CalSTRS received 11,054 Notifications of Death during the 2020–21 fiscal year, the highest on record. The fiscal year also ended with the highest percentage increase in NODs year-over-year on record. The 2020–21 fiscal year saw a 15.9% increase in NODs over the prior year, whereas year-over-year increases typically range from 3.5% to 5.9%.

6. Path Forward Update

CalSTRS continues to monitor the changing conditions of the workplace protocols resulting from decisions of regulatory agencies providing direction on mask mandates and physical distancing requirements. Governor Gavin Newsom announced enhanced safety measures on Monday, July 26 to help protect the state workforce and the public it serves in response to low vaccination rates and increasing case rates of COVID-19. The state is now requiring vaccine verification of all state employees and mandating regular COVID-19 testing for all unvaccinated employees working on-site.

State departments have been directed to implement procedures to collect and verify employee vaccination information, as self-attestation is no longer sufficient evidence of vaccination, for an exemption from testing.

CalSTRS employees who are unvaccinated or choose not to provide proof of vaccination will be required to be tested weekly and will only be allowed to enter into a CalSTRS facility after providing a negative COVID-19 test result. Because the increase in cases is heavily concentrated in unvaccinated individuals, fully vaccinated employees are exempt from COVID-19 testing; however, will be allowed to participate in COVID-19 testing if they choose to.

We are waiting to hear about testing protocols for state employees from the California Department of Human Resources (CalHR) and will implement a process to ensure compliance with this new mandate.

Additionally, although the California Department of Public Health and CalHR issues statewide guidance on face coverings, if a local health jurisdiction issues a stricter public health ordinance, state agencies must follow that direction. Los Angeles, Santa Clara and Yolo counties are requiring that everyone in indoor spaces, regardless of their vaccination status, wear a face covering. This direction impacts CalSTRS headquarters and the Glendale and Santa Clara Member Service Centers. Once these local restrictions lift, only unvaccinated staff will be required to wear a mask indoors.

Although we are now operating under stricter restrictions in most of our locations, CalSTRS is continuing to move forward with plans to bring staff back into its facilities for certain types of activities and meetings that work better in person. Starting in August, non-essential staff are welcome to work in CalSTRS facilities, on a voluntary basis, provided they follow all health protocols. Beginning in October, we will be asking staff back for certain activities where in-person connection and collaboration would be beneficial, slowly phasing into a more permanent blended work environment starting in January 2022.

For the member service centers, we will follow a similar schedule. Starting in mid-October staff will be available in each office Monday – Friday, for walk in front counter services. Our scheduling and call center staff will be able to direct members to the MSCs for walk in services. On November 1, 2021, we will advertise that front counter services are available at all member service centers. and market via the usual channels including updating the .com site. Beginning December 6, 2021, in-person individual planning sessions will begin by appointment only, and on January 3, 2022, in-person group planning sessions by appointment only will be offered.

We continue to move forward with these plans while acknowledging that modifications may be needed as health directives continue to change. Our number one focus is to keep both CalSTRS staff and our members safe during this time, while focusing on our core business and mission of serving CalSTRS members in the most effective manner possible.

7. Headquarters Expansion (HQE) Construction Update

As of July 31, 2021, the construction of the project is approximately 44% complete, and the Substantial Completion Date (SCD) has moved out nine days to December 21, 2022, which is a total impact to the original schedule of 118 working days.

On July 15 2021, Cassandra Lichnock along with the building architects and construction management staff met with senior leaders of the Office of the State Fire Marshal (OSFM), spending several hours reviewing remaining plan comments and the timing required for the issuance of the fourth permit. It was agreed that the Fire Protection and Fire Alarm plans would be removed from the building plans and submitted separately, to focus on the sections necessary for the project's critical path. This meeting was extremely productive and collaborative, and we are pleased to share that this permit was issued on July 30, 2021!

The Fire Protection plans have been submitted and are currently under review. The Fire Alarm plans will be submitted on August 16, 2021. Additionally, the photovoltaic array plans will also need to be submitted for OSFM and City of West Sacramento review once pricing is completed and approved by CalSTRS.

We continue to make great progress on all of the sustainability goals for the project.

Construction Activities

The underground conduit installation and switchgear/meter install is complete. The bus duct from PG&E Transformer to the primary switchgear in is process and should be completed in early August. Additional activities are below:

- Concrete masonry unit fabrication at P2-P4 is completed
- Expansion joints and roofing materials were released for fabrication
- Glazed aluminum curtain wall fabrication for office level 6 & 7 was released
- Pre-punch list for P1-P4 quality control patching started this month
- South Canopy at P4 steel erection started this month

Schedule Status

The schedule included in the GMP document projected an SCD of July 6, 2022, but as stated above, has been pushed out an additional nine days from the last report to December 21, 2022. There were zero weather days used since the previous report, and the remaining twenty-one weather impact days are included in the SCD that may or may not be needed. Below are upcoming substantial project milestones:

Project Milestones	Start Date	Completion Date
Phase IV Architectural/MEP/TI Permit/OSFM	03/31/20	07/30/21
Fire Protection Plan Permit	07/29/21	Est 8/31/21
Fire Alarm Plan Permit	08/16/21	Est 10/15/21
P-2 Structure	05/19/20	06/21/21
P-3 Structure	06/23/20	06/29/21
P-4 Structure	07/29/20	06/29/21
P-5 Structure	08/26/20	08/04/21
Exterior Envelope	09/01/21	03/02/22
Lobby Level Interior Improvements	04/26/21	01/14/22
Roof/Skylight Construction	12/09/21	02/14/22
Bridge Construction including interiors	04/01/21	06/14/22
Office Level 03 Interior Improvements	11/04/21	06/08/22
Office level 03 Owner Furniture Installation	06/16/22	07/28/22
Office Level 04 Interior Improvements	11/11/21	07/07/22
Office Level 04 Owner furniture Installation	07/29/22	09/09/22
Office Level 05 Interior Improvements	11/18/21	08/04/22
Office Level 05 Owner Furniture Installation	09/12/22	10/21/22
Office Level 06 Interior Improvements	12/23/21	09/01/22
Office Level 06 Owner Furniture Installation	10/24/22	12/06/22
Office Level 07 Interior Improvements	01/25/22	09/30/22
Office Level 07 Owner Furniture installation	12/07/22	12/20/22
Start-Up and Commissioning	05/23/22	09/30/22
FINAL AHJ Inspections	10/10/22	11/09/22
Estimated Project Completion Date	10/21/19 start	12/21/22

Budget Status

COVID-19 COSTS: Yolo County reinstated mask requirements for both vaccinated and unvaccinated persons in indoor settings. Although this does not impact our current protocols for most trades (since they are working outdoors), we will be monitoring further restrictions, such as mandatory testing for non-vaccinated individuals, for additional budget impacts to the project. Currently there is only \$25K earmarked in the project contingency for future COVID-19 costs, based on the removal of the health screening and questionnaire required to start work.

SCHEDULE DELAY COST: Due to the receipt of the Phase IV permit (critical path portion) on July 30, 2021, we are hopeful that the schedule for the project does not slip past the new completion date of December 21, 2022.

Included in the completion date are 21 weather days and 30 days of final inspections by authorities having jurisdiction over the project, which we don't anticipate needing to utilize in full. With the critical portion of the final permit in hand, the team can now confidently review activity sequencing to identify ways to compress/overlap tasks; and/or work overtime where it makes sense to shorten the overall project schedule and minimize the added costs associated with the schedule delays.

The budget status for the month ending July 31, 2021, is summarized below:

Budget Categories	Total Project Budget	Costs to Date	Balance to Complete
Hard Costs	\$ 245,163,454	\$ 110,786,449	\$ 134,377,006
Hard Contingency Cost	\$ 5,665,176		\$ 5,665,176
Soft Costs	\$ 44,851,859	\$ 27,204,101	\$ 17,647,758
Project Contingency	\$ 4,319,511		\$ 4,319,311
Totals	\$ 300,000,000	\$ 137,990,549	\$ 162,009,451

The hard cost contingency was reduced since the last board report by \$121,466. These costs were related to scope gap and additional consulting services needed in the field.

The project contingency was reduced since the last board report by \$233,443 due to monthly costs for COVID-19 safety protocols, OSFM plan check and inspection costs, and increased City of West Sacramento building permit and impact fees.

Once the final portion of the last permit is received, which is expected by the middle of October, staff will work with Ridge Capital to provide the board with cost overage estimates and options for scope modifications. We will be prepared to provide the board with progress at the November board meeting, and we anticipate having a final estimate for board approval in January 2022.

Risk Status

On-going risks associated with the project are:

Public Agency Plan review timeframes – The critical path portion of the Phase IV permit was received on July 30, 2021, with the Fire Protection and Fire Alarm portion of the permit submitted separately. We have been assured that the final portions of the Phase IV permit will be received by mid-October. Due to the positive interactions with the OSFM, and the assurance that our project will be supported by the necessary resources to complete, the risk level associated with public agency review comments and timeline has been reduced to medium.

COVID-19 – With the receipt of the Phase IV critical path permit, we can move forward with purchasing materials that had not previously been “bought out” and will be watching for escalations in cost due to COVID-19. With the uptick in COVID cases caused by the delta variant, Yolo County has reinstated the indoor mask mandate regardless of your vaccination status. While it is not anticipated that the State will call for another “shelter in place” directive, we will keep this item on the risk list until further notice.

8. Chief Operating Officer

Lisa Blatnick was appointed as CalSTRS new chief operating officer and began her new role on August 16, 2021. In this role she will oversee Audit Services, Enterprise Strategy Management, Administrative Services, Benefits and Services, Public Affairs, Technology Services, and the Ombuds office. She will also continue to lead our Path Forward project to transition staff to a blended work environment, which will include in-office and remote work, with a focus on preserving workplace culture and collaboration.

Lisa has served as chief of administrative services since August 2015, leading human resources, procurement, facilities management, business continuity and sustainability. During that time, she has played an instrumental role in numerous high-profile projects, including the expansion of the headquarters office in West Sacramento and management of internal resources that support an investment strategy known as the [CalSTRS Collaborative Model](#), which brings more assets internally to reduce costs.

She learned from the ground up at CalSTRS and progressed because of her leadership, proven results and commitment to providing California’s hard-working teachers and their families with a secure retirement. She joined CalSTRS in September 2003 as a facilities coordinator and has nearly 28 years of experience working for the state of California. She also held the position of director of facilities management and procurement before becoming chief of administrative services. Prior to joining CalSTRS, she worked at the Legislative Counsel Bureau and the Office of Criminal Justice Planning in human resources and facilities-management-related positions.

Blatnick is a native of Sacramento and holds certificates in human resource management and labor-management relations from the University of California, Davis.