

THE RISK ENVIRONMENT

The risk environment is dynamic. In fiscal year 2020–21, CalSTRS experienced one of the highest investment returns in its history. In 2021–22, CalSTRS had its first negative investment return in more than 10 years. Last fiscal year, CalSTRS earned just below its 7% assumed return with a 6.3% time-weighted investment return. After seeing Inflation levels at their highest in more than 40 years, inflation was 3.1% in fiscal year 2022–23, just above the assumed long-term inflation rate of 2.75%. More than three years since the COVID-19 pandemic, the lingering effect on people’s health has resulted in decreases in life expectancies and raised questions about what the long-term impact on mortality will be. Furthermore, CalSTRS has experienced significant swings in the number of active members over the last few years.

This section discusses the long-term funding impact of risks like these going forward. Specifically, this section will examine the risk associated with longevity, payroll growth and investments.

Longevity risk

Each year, this report updates and examines the impact of longevity on the funding of the system. Longevity risk refers to the potential that members live longer than anticipated, and thus, the lifetime benefit they receive lasts longer than expected. This section analyzes longevity from a historical perspective and how CalSTRS addresses the risk using generational mortality.

Before reviewing the historical and projected mortality data, it is worth taking a moment to address the COVID-19 pandemic. The previous two Funding Levels and Risks reports included specific data related to the COVID-19 pandemic and deaths among CalSTRS members. That data is no longer being collected at CalSTRS as the COVID-19 virus has transitioned to an endemic disease that will

likely always be with us. What remains to be seen, however, is what the long-term impact to longevity will be. As the chart in the next section illustrates, after a dip in life expectancy during the pandemic, the most recent data suggests that life expectancy has increased in the past year.

It will take years before the full impact of the pandemic to longevity is fully understood. In the meantime, CalSTRS is likely to take a cautious approach in how it incorporates the impacts of the COVID-19 pandemic. As CalSTRS conducts the next experience study, which will be presented to the board in January 2024, it is unlikely the mortality rates recommended will reflect the full mortality experience from the COVID-19 pandemic as it is unclear if that experience is appropriate to reflect in long-term rates.

