CalSTRS Report for May 2019

By Pat Geyer, CalRTA Representative to CalSTRS

Summary

1. CalSTRS funding ratio of the defined benefit program is getting better. In June 2017 CalSTRS was 62% funded. As of June 2018 CalSTRS is 64% funded.
2. The Board approved an addition to the Corporate Governance Principles which included an item in support of carbon pricing to reflect the carbon impact on climate change.
3. The Board authorized the issuance of bonds for the Headquarters Expansion Project. The cost of the total project approved by the board is not to exceed $300 million.
4. The CalSTRS work plan for 2019-20 includes funding analysis, Pension Solution (computer project) and Long Term Facilities Project (construction of the new building begins August).
5. In 2019-20 CalSTRS plans to add an additional 27 investment positions rather than the originally planned 12 positions. This will enable CalSTRS to bring additional investment “in house” thus saving the expense of hiring outside investment consultants and managers.
6. Two new member service centers were opened: one in Redding (appointment only) and one in Fresno.
7. The CalSTRS fund is $233.7 billion, an all time high.
The Board authorized the issuance of bonds for the Headquarters Expansion Project. The total cost of the project is not to exceed $300 million. The bonds will be named “The California Infrastructure and Economic Development Bank Lease Revenue Bonds (CalSTRS Headquarters Expansion) (Green Bonds). The total cost including interest will be $584,100,863.

CalSTRS funding ratio of the defined benefit program is getting better. In June 2017 CalSTRS was 62% funded. As of June 2018 CalSTRS is 64% funded. However, both the State’s contribution rate and the employer’s contribution rate will increase as scheduled on June 30, 2018. The total State’s rate will increase from 9.8% of payroll to 10.3% of payroll. (This includes 2.5% to the Supplemental Benefit Members Account). The employer’s total contribution rates will increase from 16% of payroll to 18% of payroll. However, the Governor’s proposed budget includes supplemental CalSTRS contributions on behalf of employers that would reduce employers’ contributions. Members (teachers, etc) contribution rate remains the same at 10.205% (2% at 62) and 10.25% (2% at 60) of payroll.

There will be no changes to the Medicare Premium Payment Program or the Lump Sum Death Benefit. There will be slight increases to the credited interest rates: Defined Benefit Program (1.54% to 2.6%), Cash Balance Benefit Program and Defined Benefit Supplement Program (2.89% to 3.12%).

The Board heard a report on AB 2833 which requires CalSTRS to disclose certain fee and expense information. The report shows that CalSTRS is in compliance with the requirements of AB 2833. Other State Legislation includes AB33 which prohibits investment in private prisons. AB33 has been pulled. AB706 removes the 3-year limit which an employee of a community college district must transfer unused sick leave. AB706 is moving through the legislature. There are numerous bills on Charter Schools, but they do not impact CalSTRS. Legislation on mandatory membership in CalSTRS for all educators is being planned.

The CalSTRS work plan for 2019-20 includes funding analysis, Pension Solution (computer project) and Long Term Facilities Project (construction of the new building begins August).
Also included are the Asset Liability Study, Evaluation of a Risk-based Budget, and Implementing the CalSTRS Collaborative Model.

The Board approved an addition to the Corporate Governance Principles which included an item in support of carbon pricing to reflect the carbon impact on climate change.

Jack Ehnes presented the Chief Executive Officer report.

(1) The Stanford Longevity Study had 97 entries. The Study topic was bringing generations together. Winners were (1) So you think you know grandmother – story telling and game dynamics, (2) Sharing family history app, 3. Pillow Fight game.

(2) The STRS Sustainability Report is available. It found that business should include sustainability in their financial reports along with funding, pension preparedness and accountability.

(3) Customer service is doing well. But there is a large turnover in personnel in the Call Center due to burn out.

(4) Construction of the New CalSTRS building begins in August. Building plans are on schedule. The CalSTRS building is #1 in sustainability.

(5) CalSTRS has a good relationship with the City of West Sacramento. May 15 is the meeting with the City for a discussion of CalSTRS building plans. The City plans to build a dock for boats on the west side of the Sacramento River.

The Budget Act of 2018 (Senate Bill 840) gave CalSTRS the authority to add additional investment staff of 55 positions over a period of five years. In 2019-20 CalSTRS plans to add an additional 27 positions rather than the originally planned 12 positions. This will enable CalSTRS to bring additional investment “in house” thus saving the expense of hiring outside investment consultants and managers. The CalSTRS building will be more crowded over the next year until the new building can be completed.

The Board heard a presentation on the CalSavers Retirement Savings Program (formerly “Secure Choice”). The CalSavers board is chaired by the State Treasurer. The Program requires that all employers in the State must have a retirement savings plan or offer CalSavers. The self-
employed may individually sign up for CalSavers. Each member may make a maximum contribution of 8% or $6000 maximum per year.

The Pension Solution (computer project) update was presented. All employers and interested parties were notified of the process: individual emails were sent to superintendents and chancellors. The CalSTRS School Business Officers Symposiums were conducted at six of the CalSTRS member Service Centers. Employers will have two years to adopt the new computer system.

**Benefits and Services Committee**

Two new member service centers were opened: one in Redding (appointment only) and one in Fresno. This completes the project of delivering CalSTRS services in areas where the members work.

CalSTRS is using the Defined Benefit component for the purpose of recruiting and retaining quality CalSTRS members. There has also been an interest among members in the Financial Awareness and New Member Orientation programs.

**Client Advisory Committee**

The Committee heard a presentation on the CalSTRS Collaborative Model for Investments. It included a history of the CalSTRS investment program. The presentation included a discussion of the move to manage investments “in house” rather than hiring outside advisors. The purpose is to manage costs and to align financial interests between CalSTRS and financial advisors.

A legislative update was presented. (See Board report)

The research team at CalSTRS is undertaking a Demographic Study of CalSTRS members beginning in May 2019. There will be questions about individual characteristics such as age, gender, race, family, finances, career, education, and retirement preparation and knowledge.
Investment Committee

The Committee had a moment of silence in memory of the children who died in the Colorado gun violence.

The Committee heard the work plan for 2019-20. It includes an Asset Liability Study, evaluation of a Risk-based budget, continued implementing the new CalSTRS Collaborative Model, and a study of a low carbon future and its potential impact on the portfolio.

Next the Committee heard the report to Assembly Bill 2833. The Bill requires that a public pension plan disclose fee and expense information about its investments in any private fund that is an alternative investment vehicle. Included was a list of 180 CalSTRS alternative investments made prior to January 1st 2017 and a list of 64 alternative investments made after that date. Betty Yee, State Controller wants to reduce the cost of the reporting.

The Committee work plan to 2019-20 includes the Asset Liability Study, Evaluation of a Risk-based Budget, reports on the new CalSTRS Collaborative Model, study of a Low Carbon Future. China will also be a future item in the work plan.

A Corporate Governance Principles revision will include language in support of carbon pricing. The Carbon pricing language will be under Appendix A: Statement of Shareowner ESG Responsibility. The Committee wants investments and governments to move to a low carbon future. Betty Yee reported that CalPERS also supports a low carbon future.

The Committee heard a presentation by students asking to stop supporting fossil fuel companies and to work to reduce climate change.

The Private Equity program will be restructured. Originally the Private Equity asset classes were equally listed. Now the asset classes will be grouped under Traditional (Buyout, Venture Capital, Debt Related) and under Non-Traditional (Longer-Term Strategies, Multi-Strategy, Special Mandates). The former Core group has been divided into Longer-term Strategies and Main Strategy.
The traditional asset classes (Public Equity, Private Equity, Real Estate, Inflation Sensitive, Fixed Income, Risk Mitigating Strategies, and Cash) will be organized under Strategic Classes.

The Strategic Classes are:
- Economic Growth (Public Equity, Private Equity) target 60%;
- Real Assets (Real Estate, Inflation Sensitive) target 17%;
- Diversifying (Fixed Income, Risk Mitigating, Cash) target 23%

The assumptions and discussion will be continued in July.

Chris Ailman, CIO gave his report. The CalSTRS fund is $233.7 billion, an all time high. This has been the longest bull market in history (2009-2019). The economic risks are trade wars, Federal Reserve Acts, European Central Bank Acts and BREXIT. However, the economy is good, unemployment is at a 50 year low, and inflation is low. Surprises may be earthquakes or storms, internet disruption, social unrest, a pandemic such as swine flu,

Next was a report on implementing the CalSTRS Collaborative Model. The Model is an internally-led approach to guide the balance between internal and external management of assets. This model builds internal management, increases control of risks to save costs and reduce management fees. CalSTRS has been in the process of increasing staff and expanding with the new CalSTRS building.