CalSTRS Report for September 2019

By Pat Geyer, CalRTA Representative to CalSTRS

Executive Summary

1. CalSTRS will increase the rate paid by the association from $.04 to $.08 for dues collection, and increase the rate paid by the insurer for insurance collection from $.07 to $.16.

2. The CalSTRS Asset Liability Management Study (ALM) recommended allocation would reduce investment in Public Equity from 47% to 42%. Increase Real Estate and Inflation Sensitive allocations by 2%. Increase Risk Mitigating Strategies by 1%.

3. The Board heard public comment on Divesting from Fossil Fuel Companies and on labor disputes. Board discussion followed regarding developing regulations regarding public comments.

4. The Semi-Annual Performance Report stated that all asset classes met or out-performed their policy benchmarks for the 1, 3, and 5-year periods. For the 10-year performance, private equity and real estate underperformed relative to their policy benchmark.

5. The Pension Solution computer project continues and at the end of the year employers will get the dates when they will begin testing the new pension administration system.

6. CalSTRS staff presented proposals regarding regulating public comment so that the Committee can conduct their business in a timely manner.

7. Staff presented a preliminary operating budget of $361.7 million for 2020-21. The budget reflects a total net increase of $71 million or 25%. The largest change was Capital Projects.

Benefits and Services Committee

CalSTRS makes a service charge for collecting dues and insurance. They will be increasing the rate paid by the associations from $.04 to $.08 for dues collection, and will be increasing the rate paid by the insurer for insurance collection from $.07 to $.16. The Benefits and Services Committee Charter was approved.
Client Advisory Committee

Joycelyn Martinez-Wade presented the Legislative update. AB 33 which restricts CalSTRS investments in private prison companies is held in committee. CalSTRS opposes AB 33.

AB 181 and AB 462 (Rodriquez) require CalSTRS and CalPERS to submit an annual report to the Legislature of status of achieving appropriate objectives. CalSTRS supports these.

AB 1320 (Nazarian) requires CalSTRS and CalPERS to divest in investments in Turkey. AB 1320 is in the suspense file.

The Committee heard presentations on the Retirement Readiness program and the Dues and Insurance Deductions Program Update.

Susie Chow will be the UTLA-Retired representative to the CalSTRS Board replacing Loretta Toggenberger.

Investment Committee

The Committee heard a report on Asset Allocation which is part of the on-going Asset Liability Study. In July, the board directed staff to propose portfolios with expected returns between 6.75% and 7.2%. If selected, the recommended model would reduce investment in Public Equity from 47% to 42%. Increase Real Estate and Inflation Sensitive allocations by 2%. Increase Risk Mitigating Strategies by 1%. The recommended portfolio has an expected long-term return of 7.1%. Committee Chair Keeley is concerned that the Board is careful and gets good Real Estate investments. It may be necessary to take time to make good investments.

The Collaborative Model under way; it will build greater capacity in private markets which is expected to increase investment returns, control risk and expand investment opportunities.

Additional responsibility was added to the Program Component of the Corporate Governance Policy. Tasks managed by the Strategic Relations Management team (renamed Stakeholder Engagement Team) will be integrated into the Sustainable Investment and Stewardship Strategies team. The policy revisions were approved.

The Board heard from the Hotel Workers on their labor disputes specifically with the Pullman Hotel in the San Francisco area. Board discussion followed regarding developing additional rules regarding public comments.

Next the Board heard public comment on Divesting in Fossil Fuel Companies. Over 50 school children and adults spoke for divestment. These comments were limited to 30 minutes total.

The Semi-Annual Performance Report stated that all asset classes out-performed their policy benchmarks for the 1, 3, and 5-year periods. For the 10-year performance, private equity and real estate underperformed relative to their policy benchmark. Experts predict increased
volatility. However, the United States domestic investments should do well. World issues are conflict in Hong Kong, Argentine default, Pakistan and India disputes over Kashmir, and Brexit.

**Teachers’ Retirement Board Regular Meeting**

Grant Boyken reported on the amended format for the Pension Solution reporting. These are the final regulations and are identical to what was reported to the Board in July.

The Pension Solution project team has been renamed Transformation Readiness. The team has two sub teams: Change Management and Learning and Development. The Change Management team will be developing plans for training and change activities in the late fall. CalSTRS will also consult with payroll vendors. In November/December two employers will try out the new system. At the end of the year employers will get the dates when they will begin testing the new system. The CalSTRS staff has been trained to help the employers (school districts and county offices).

Brian Bartow and Grant Boyken, CalSTRS staff presented proposals regarding regulating public comment so that Committees can conduct their business in a timely manner. Some suggestions were time limits, limits on number of speakers, speaker request forms, limits on pre-recorded audio-visual materials, requiring comments be germane to subject matter.

Staff presented a preliminary operating budget of $361.7 million for 2020-21. The budget reflects a total net increase of $71 million or 25%. The largest change was Capital Projects which amount to $47 million or 66%. State mandates are $14 million or 20%; service contracts are $5.4 million or 8%; and workload management is $4.5 million or 6%. Final action on the budget will be in November.

Staff presented legislation of interest (see legislation under Client Advisory). New legislation for next year will be discussed in November.

Jack Ehnes, CEO presented his report. He noted that there is ongoing construction. Presently they are working in the garage. He sees no unexpected changes. The sale of bonds relating to construction will occur in December. CalSTRS has developed two member surveys. The goal is to achieve more communication with members under 49. The most popular message has been “plan for the future”.

An updated list of the 2017-18 incentive award amounts was presented. The next CalSTRS Board and Committee meetings will be November 6-8, 2019.