



Benefits and Services Committee

Item number 4 – Open session

Subject: Defined Contribution Programs Update

Presenter(s): Kate LeBlanc, Retirement Readiness Director; Carrie Fisher-Stone, Retirement Readiness Assistant Director; Patrick Bivins, Defined Contribution Programs Manager

Item type: Information

Date and time: September 26, 2024 – 25 minutes

Attachment(s): None

PowerPoint presentation(s): Defined Contribution Programs Update

Item purpose

The purpose of this item is to provide the Board with an update on CalSTRS' Defined Contribution programs. Pension2 is the third component of CalSTRS hybrid retirement system, offering voluntary tax-advantaged savings plans. Staff will discuss Pension2's critical role in supporting the retirement security of California educators, report on program growth, and share recent accomplishments. The presentation will offer insight into the program's funding structure and its continued evolution to sustain its growth and ensure a stable future.

Executive summary

The CalSTRS defined benefit pension replaces an average of 50% to 60% of a member's final salary in retirement. This is based on those with an average service credit of 24.5 years. Pension2 serves to close this gap by providing an accessible, affordable supplemental savings option. Through education, outreach, and ongoing servicing, Pension2 helps members make informed decisions about their supplemental savings options, including understanding the impact of product fees and other key considerations.

Pension2 has achieved significant success over the past 20 years, with assets under management growing from \$400 million in 2008 to over \$2.5 billion today and program participation increasing an average of 17% annually, from 4,000 to over 34,000 members. Recent accomplishments include the negotiation of a new contract with Voya Financial that secured favorable terms for the program, positioning Pension2 to continue its growth trajectory.

Pension2 staff continue to evaluate the program’s structure and are actively exploring opportunities for continued service evolution and infrastructure stability to ensure that the program continues to thrive and remain well-positioned to meet future demands.

Background

Pension2, originally established as the Voluntary Investment Program (VIP) under Chapter 291, Statutes of 1994 (AB 3064), is designed to offer California educators low-cost, tax-advantaged savings options. The program offers 403(b), Roth 403(b), 457(b), and Roth 457(b) plans to supplement CalSTRS’ defined benefit pension. Pension2 provides flexible, low-fee options for educators through its recordkeeping partnership with Voya Financial, with the mission of providing them with additional financial resources to complement the defined benefit plan.

In the broader 403(b) marketplace in California, educators contend with a vast array of high-fee annuity products, largely a result of California’s Insurance Code 770.3 and the influence of third-party administrators (TPAs) incentivized to promote high-cost options. This market complexity often undermines educators’ ability to invest in more affordable and flexible products. Pension2’s transparent, low-cost offerings play a vital role in helping educators navigate these challenges.
