# Regular Meeting

## Item Number 11 – Open Session

**Subject**: Board Education: AI Follow-up

**Presenter(s)**: Lisa Blatnick / April Wilcox / Ashish Jain

**Item Type**: Information

**Date & Time**: September 26, 2024 – 60 minutes

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**Attachment(s)**: None

**PowerPoint(s)**: AI at CalSTRS – Continuing the Journey

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**Background**

Under the 2022–25 CalSTRS Strategic Plan, Goal 2: Objective B, we are committed to fostering a culture of strategic and innovative thinking. A key element of this strategy involves exploring the potential of AI to enhance our operations. In alignment with the 2024–25 CalSTRS Business Plan, we are focused on responsible AI adoption to drive operational efficiency and innovation.

During the July 2024 offsite, the Teachers' Retirement Board engaged in a comprehensive discussion on AI, facilitated by industry leaders. The session provided valuable insights into the current state of AI, its potential applications within CalSTRS, and the strategic direction the board should consider.

**Item Purpose**

The purpose of this item is to provide a brief recap of the July Offsite AI discussion, outline the current status of AI at CalSTRS, and discuss the next steps to ensure that the board remains informed about our progress and continues to support our strategic direction as we move forward with these initiatives.

**Brief Recap of July Offsite AI Discussion**

During the July offsite, the board engaged in comprehensive discussions on AI with industry experts and participated in a dedicated workshop. These discussions aimed to build a common understanding of AI and its implications for CalSTRS. Key objectives included embracing the

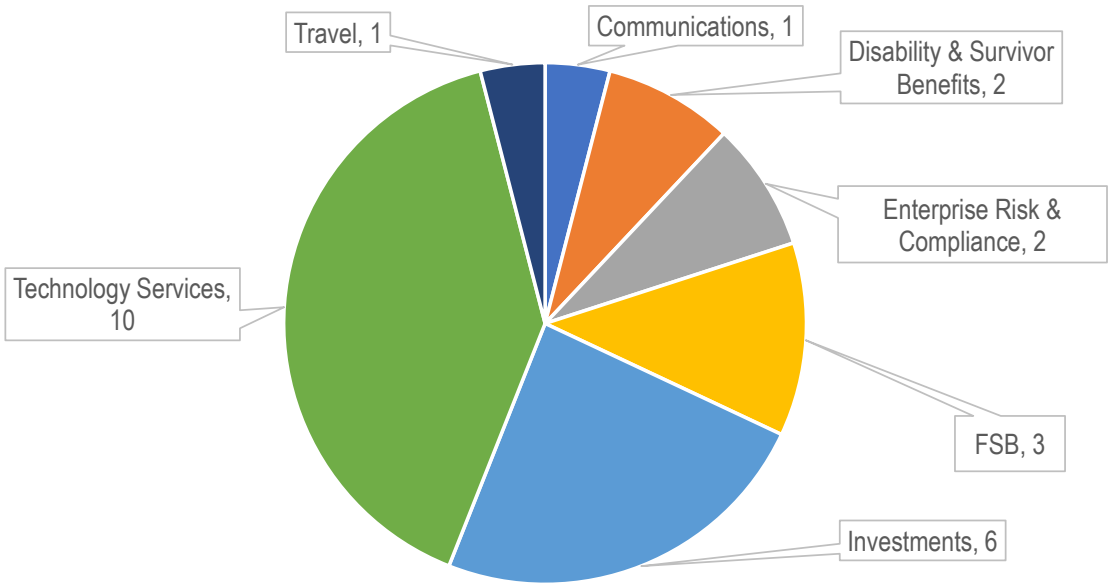
potential of AI responsibly, balancing AI initiatives with sustainability goals, and ensuring that AI enhances staff experience. The discussions emphasized the importance of a collaborative approach, involving stakeholders from legal, cloud partners, and other areas to ensure effective AI governance.

The consensus was that CalSTRS should position itself as an "Early Adopter" on the AI innovation curve. This approach enables us to actively explore AI's potential while responsibly addressing the associated risks. The board and executive staff agreed on the necessity of a strategic, business-driven approach to AI adoption, focusing on responsible and sustainable practices.

## Current Status of AI at CalSTRS

*CalSTRS AI Use Cases at a Glance:*
CalSTRS has taken a consistent and methodical approach to managing AI initiatives. As of August 2024, twenty-five candidate AI use cases have been documented and analyzed across more than ten business programs, including Communications, Disability and Survivor Benefits, Enterprise Risk and Compliance, Financial Services, Investments, Technology Services, and Travel.

The chart below illustrates the distribution of AI use cases across these business programs:




*Examples of CalSTRS AI Use Cases:*

- **Disability and Survivor Benefits**: Utilizing machine learning for predictive analytics to enhance resource planning and talent recruitment.

- **Financial Services**: Implementing a chatbot for ACH payments to reduce repetitive interactions, freeing up staff time for other tasks.
- **Investments**: Employing AI to process and summarize vast amounts of market research more efficiently and gain additional key market insights. Ultimately this process will lead to better decision-making, reduced staff time, and higher returns.
- **Pension Solution**: Using AI-driven data harvesting to allow testers and research staff to extract desired data using natural language instructions without programming skills.
- **Enterprise Risk and Compliance**: Applying AI for risk assessment and compliance monitoring, enabling proactive risk management and improved regulatory compliance.

*Current PoC Efforts:*
There are currently four active Proof of Concept (PoC) efforts to implement selected AI use cases. The PoC use cases were selected based on priorities such as faster turnaround time, lower risk levels, and the complexity that can best fulfill the objectives of the PoC. Furthermore, these PoCs are being developed with AI platform from major reputable vendors such as Microsoft, Google, Amazon, and Meta. The outcomes of these PoCs will guide decisions on which AI platform to adopt for piloting additional AI use cases. These AI efforts are closely aligned with CalSTRS' continuous innovation journey, ensuring that our organization remains at the forefront of adopting transformative technologies to enhance operational efficiency and strategic impact.

The table below shows the progress of the six concurrent tracks to implement four PoC use cases using four different AI platforms, providing a snapshot of our ongoing AI development efforts. The results of the PoC efforts and their underlying AI platforms will be evaluated based on criteria such as accuracy, consistency, quality of AI-generated decisions and predictions, validity and reliability of data, diversity and bias, as well as legal and ethical considerations.

| Use Case | AI Platform | Requirement | Technology Request Approval | Kick off | Development | User Testing |
|---|---|---|---|---|---|---|
| **FSB ACH AI Chatbot** | Amazon | Completed 5/2024 | Completed 8/6/2024 | **Planning** | | |
| | Google | Completed 5/2024 | Completed 8/6/2024 | **Planning** | | |
| **MSC AI Chatbot** | Meta | Completed 5/2024 | Completed 6/10/2024 | Completed 7/03/2024 | Completed 8/9/2024 | Started 8/12/2024 |
| | Google | Completed 5/2024 | Completed 7/19/2024 | Completed 7/22/2024 | Completed 8/9/2024 | Started 8/12/2024 |
| **FSB AI Summarization** | Microsoft | Completed 5/2024 | **In Progress** | | | |
| **Investment Branch Sandbox** | Amazon | Completed 6/2024 | **In Progress** | | | |

*AI Governance Policies and Processes:*
Since AI technologies are still evolving rapidly, CalSTRS has deliberately chosen a "lean governance[1]" approach to managing the use of AI such that CalSTRS' AI adoption can be both diligent and agile while maintaining a controlled and prudent pace. CalSTRS' lean governance is built on top of the already-established review processes, which govern all new technology adoptions, use of data, and adds additional intake channels to expedite the review and approval of AI-related requests.

An initial enterprise-wide AI policy is already in place and being enforced. We are partnering with the Board's investment consultants, Meketa and RFA, on investments-related AI policy best practices. Based on the analysis and the California governor's state-wide mandate and guidance on AI, CalSTRS will enhance the current policy and/or develop additional AI policies as needed. These AI policies will enable various technology governance committees to consistently review and effectively enforce the prudent and ethical use of AI at CalSTRS.

*AI Training:*
Across the organization, we continue to monitor and promote awareness about AI, as well as the responsible and ethical use of AI, through AI training workshops. We plan to hold more AI training sessions and workshops as often as necessary during the adoption phase of the CalSTRS AI journey.

Furthermore, internal staff have been collaborating closely with vendor teams on the implementation of PoC use cases. This accelerates the knowledge transfer and upskilling of our internal staff with AI technologies. Finally, several internal teams have already developed several AI prototypes and in-house solutions that include AI components as part of the upskilling regiment and training strategy.

**Next Steps**

The next steps involve continuing to monitor and refine our AI initiatives based on the outcomes of ongoing PoC efforts. These results will inform which AI platforms and use cases should be prioritized for broader implementation. Leveraging our trusted partners, efforts will continue to build a responsible AI framework. The board and executive stakeholders will be apprised of the progress and our evolving strategic direction.

[1] Lean governance involves leadership, organizational structures, and streamlined processes that enable effective collaboration and sustain the organization's ability to achieve strategic goals. In short, it provides just enough structure to ensure great outcomes from multiple agile teams.