

STATE OF CALIFORNIA
Budget Change Proposal - Cover Sheet
 DF-46 (REV 10/20)

Fiscal Year 2023–24	Business Unit 7920	Department California State Teachers' Retirement System	Priority No. 1
Budget Request Name 7920–018–BCP–2023–A1		Program Service to Members and Employers	Subprogram N/A

Budget Request Description

Pension Solution Project

Budget Request Summary¹

In support of [CalSTRS 2022-25 Strategic Plan](#), this proposal includes \$87,173,000 in one-time budget authority to fund internal and external resources to continue fiscal year 2023–24 system implementation activities for the Pension Solution Project. The Pension Solution Project is an ongoing effort by CalSTRS to modernize the legacy pension administration system. The new system, BenefitConnect, will enhance our ability to respond to customer and business needs, gain long-term operational efficiencies, improve internal controls, and enhance services to more than one million members and their beneficiaries, as well as the school employer community. The current Pension Solution Project budget is \$334.8 million. This proposal will bring the interim project budget to \$422.0 million.

This proposal was presented to, and approved by, the Teachers' Retirement Board (board) at the March 1, 2023, board meeting.²

Requires Legislation <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	Code Section(s) to be Added/Amended/Repealed N	
Does this BCP contain information technology (IT) components? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	Department CIO Ashish Jain	Date 3/27/2023

If yes, departmental Chief Information Officer must

For IT requests, specify the project number, the most recent project approval document (FSR, SPR, S1BA, S2AA, S3SD, S4PRA), and the approval date.

Project No. N/A **Project Approval Document:** N/A

Approval Date: N/A

If proposal affects another department, does other department concur with proposal? Yes No N/A

Attach comments of affected department, signed and dated by the department director or designee.

Prepared By Pritpal Bains	Date 3/27/2023	Reviewed By Richard Schroeder	Date 3/27/2023
Department Director Art Martinez	Date 3/27/2023	Agency Secretary Amy Tong	Date 3/27/2023

Department of Finance Use Only

¹ All numbers in this proposal are rounded for presentation purposes. Supplemental detail is provided in the *Budget Change Proposal Fiscal Detail Sheet*.

² Additional details are provided in the March 2023 Teachers' Retirement Board [Item 8 – Pension Solution Project Update](#).

Additional Review: Capital Outlay ITCU FSCU OSAE Dept. of Technology

PPBA Evelyn Suess	Date submitted to the Legislature 4/1/2023
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A. Budget Request Summary

In support of *CalSTRS 2022-25 Strategic Plan*, this proposal includes \$87,173,000 in one-time budget authority to fund internal and external resources to continue fiscal year 2023–24 system implementation activities for the Pension Solution Project. The current Pension Solution Project budget is \$334.8 million. This proposal will bring the interim project budget to \$422.0 million. Funding for this proposal will be effective July 1, 2023, and will be available for encumbrance or expenditure through June 30, 2025, and for liquidation through June 30, 2027. Additionally, this proposal includes an extension of the existing Pension Solution Project appropriations through June 30, 2025, for encumbrance or expenditure and through June 30, 2027, for liquidation.

To ensure continuity of critical system implementation activities, CalSTRS has established and implemented a new path forward strategy, serving as an integral component for long-term success of the project. This strategy encompasses continued integration of additional internal staff and resources, in addition to acquiring a new system implementation vendor(s) to complete the project. Once a new system implementation vendor(s) is acquired, and costs are refined, CalSTRS will have sufficient information to develop and establish an updated project schedule and quantify the impact on the budget. Upon completion of these activities, CalSTRS will submit a budget change proposal during the 2024–25 budget cycle. As part of the 2024–25 budget change proposal, CalSTRS will true-up any changes to the 2023–24 one-time cost estimate of \$87.2 million as part of the budget to complete the project.

B. Background/History

CalSTRS overview

CalSTRS was established by law in 1913 to provide retirement benefits to California's public school educators from prekindergarten through community college. It began by serving 120 retired members and 15,000 active members. More than a century later, the system serves more than one million members and their beneficiaries. With approximately \$301.8 billion in net assets as of June 30, 2022, CalSTRS is the largest educator-only pension fund in the world and the second largest pension fund in the United States. CalSTRS administers a hybrid retirement system, consisting of traditional defined benefit, cash balance and voluntary defined contribution plans, and provides disability and survivor benefits for California public school educators. Additionally, CalSTRS administers a limited postemployment health benefit program. CalSTRS members include educators employed by approximately 1,800 school districts, community college districts, county offices of education and other public education employers.

CalSTRS is administered by a 12-member board, which sets policies and rules for the system. Consistent with *Article 16, Section 17 of the California Constitution*, the board maintains plenary authority and fiduciary responsibility for the investment of monies and administration of the system.

CalSTRS 2022-25 Strategic Plan

CalSTRS 2022–25 Strategic Plan lays out a set of goals and measurable objectives that demonstrate how its mission and vision will advance over the next three fiscal years. The plan has three goals that embody the organization's commitment to be a well-governed, financially sound trust fund; to lead innovation and manage change in service of our members; and to integrate sustainability, and diversity, equity, and inclusion (DEI) throughout the organization's culture, policies and practices. Each goal has supporting objectives and measures that establish a framework for CalSTRS to effectively accomplish these goals to create long-term value for its members and their beneficiaries.

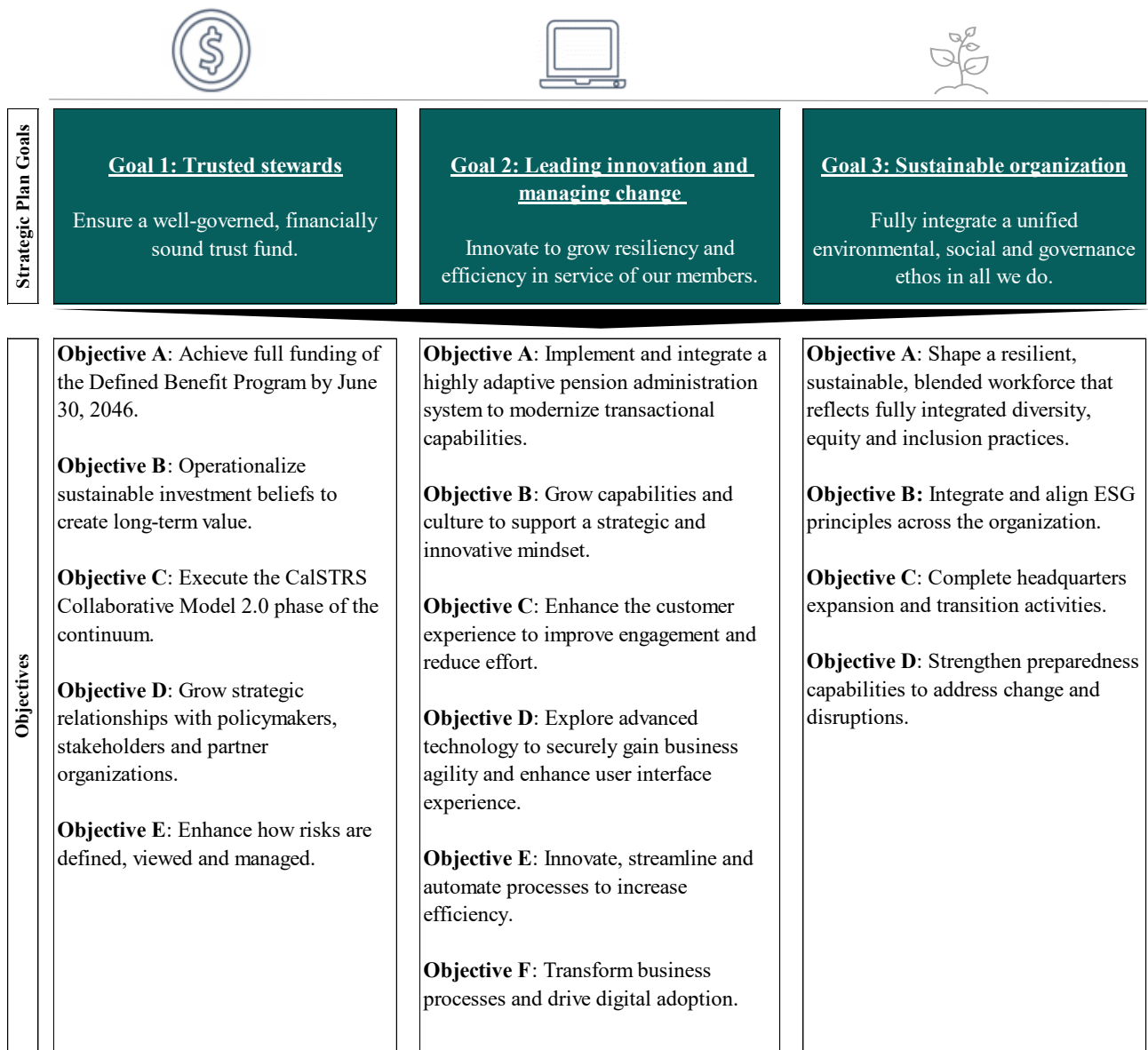
Pursuant to strategic plan goal 2, objective A, CalSTRS is committed to implementing and integrating a highly adaptive pension administration system to modernize transactional

capabilities. Replacing our legacy pension administration system with modern functionality is a critical component of delivering quality services to our members and their beneficiaries, employers and various stakeholder communities. Aligned with these priorities, this proposal includes \$87.2 million in one-time funding authority for internal and external resources to continue fiscal year 2023–24 system implementation activities.

The following diagram summarizes *CalSTRS 2022–25 Strategic Plan* goals and the corresponding objectives for each goal.

Our Mission – Securing the financial future and sustaining the trust of California’s educators

CalSTRS’ pension administration system tracks members’ service credit, compensation and payments throughout their careers. The system plays a key role in the organization’s ability to fulfill its mission.



CalSTRS commitment to diversity, equity and inclusion

CalSTRS remains committed to embodying DEI practices across the organization. The organization welcomes and embraces diversity of thinking, background and experience to enhance CalSTRS' culture and drive business success. The organization models the behavior of equity through its core values and strategic plan priorities, while delivering quality services to its members and their beneficiaries.

CalSTRS' core values are a set of attitudes, beliefs and behaviors that define the organization and its employees. These guiding principles are fundamental to its success and drive the work the organization does. In alignment with equity, CalSTRS' core value of strength—we ensure the strength of our system by embracing a diversity of ideas and people—exemplifies the organization's ongoing commitment to prioritizing equity in the workplace. Moreover, strategic plan goal three, objective A—*shape a resilient, sustainable, blended workforce that reflects fully integrated diversity, equity and inclusion practices*—demonstrates CalSTRS' efforts in not only fostering diversity and equity, but also in ensuring that they are sustainable over the long-term. On that basis, additional funding enables CalSTRS to continue the implementation of a state-of-the-art pension benefit payment system that will drive equity for members by ensuring accurate and timely processing of benefit payments.

C. State Level Considerations

In alignment with the Administration's 2023–24 commitment to advancing technology modernization and stabilization efforts, the Pension Solution Project offers a modern, robust, technologically advanced pension administration system. The new pension administration system will provide (1) increased ability to respond to customer and business needs; (2) enhanced services to members and their beneficiaries, employers and staff; (3) long-term operational efficiencies; and (4) improved internal controls. The project will also have a significant impact on contributing school employers throughout the state. In addition to an improved and secure technology for transmitting confidential data to CalSTRS, the project is anticipated to provide more complete and accurate determinations of contribution amounts and ultimate calculations of benefits for members and their beneficiaries.

As underscored above, and pursuant to [Executive Order N-16-22](#), CalSTRS' core values and strategic plan priorities align with the state's directive to foster the advancement of equity and inclusion practices. This is outlined in the core value of strength and strategic plan goal three, objective A.

CalSTRS does not anticipate impacts to any other state departments as a result of this proposal.

D. Justification

Pension Solution Project overview

Project history

In 2007, CalSTRS recognized the need to address operational risk associated with CalSTRS' existing legacy systems, including its pension administration system, START. In October 2007, the Teachers' Retirement Board directed CalSTRS to begin the process of replacing its aging technology infrastructure. A three-year research and planning effort, the Future State Architecture (FSA) project, was launched to develop a strategic plan to address known risks. The FSA project produced three key documents, the "*Path Forward for CalSTRS' Pension System*" (2009), the *Solutions Framework* (2010) and the *Implementation Roadmap* (2010). Collectively, these documents described the business, technology and operational risks inherent in CalSTRS' technology infrastructure and recommended replacement of CalSTRS' pension administration system. Procuring a new benefit administration system, versus modifying the existing one, was

determined to be the most prudent path. Implementing the new pension administration system will allow CalSTRS to:

- Design and operate more effective and cost-efficient end-to-end business processes.
- More easily adapt to future pension industry changes that are likely to be introduced.
- Extricate CalSTRS from START's various limitations.
- Move towards using more mainstream, contemporary tools, languages and databases for the core pension system.

The Pension Solution Project was initiated to address significant technology and cost concerns with operating START, all of which continue to exist today. START, which was implemented in 2001, is based on Natural/Adabas, a mainframe-based technology with significant operational risk, sustainability and cost of maintenance issues. As the underlying technology has aged, expertise has become increasingly scarce and expensive to recruit and retain. CalSTRS continues to rely on a shrinking pool of external contractors for critical maintenance and development. CalSTRS is obligated to make ongoing changes to pension administration technologies and processes in order to conform to continuously evolving state and federal law and to meet critical employer and member needs. Given the scarce expertise and the reliance on external contractors, any updates to CalSTRS' complex, custom solution have become very costly and difficult to maintain. As noted in CalSTRS' original funding request, the age, complexity and limitations of START put CalSTRS and our members and their beneficiaries at risk. System failure could result in the inability to meet our over \$1.5 billion in monthly benefit payments as of June 30, 2022, which could result in economic loss and hardship for our members and their beneficiaries, many of whom rely on this benefit as their sole source of retirement income. It is a critical objective for CalSTRS to transition to the new pension administration system before our current system is no longer technologically sustainable.

In order to support increasingly complex business and customer needs for CalSTRS' growing membership of more than one million members and their beneficiaries, it's crucial that CalSTRS has a pension administration system able to manage large quantities of data in adherence with California's complex Teachers' Retirement Law, as well as improve the customer experience. Once operational, the new pension administration system will interface with multiple CalSTRS systems, including CalSTRS' financial system (BusinessDirect) and imaging system (CalSTRS' document scanning and indexing system). The system will provide portals for contributing employers to securely communicate member account information and for members and their beneficiaries to manage their personal information on file with CalSTRS and conduct business online. The new pension administration system will also support program and policy changes, incorporate automated internal controls and improve processing times.

CalSTRS will transition to the new pension administration system before the current system is no longer technologically sustainable. This transition will be phased in to manage and limit the effects to those whom CalSTRS serves.

Benefits of technology modernization to our members

As outlined in detail below, the primary objectives of the new system include *increased ability to respond to customer and business needs; enhanced services to members, beneficiaries, employers and staff; long-term operational efficiencies; and improved internal controls.*

Expected Outcomes of BenefitConnect

Increased ability to respond to customer and business needs

CalSTRS' current pension administration system, START, is costly to maintain, enhance and operate. The system was custom developed based on pension and business requirements in 2001 and has limited flexibility. System changes due to legislative or regulatory requirements as well as desired business enhancements have proven to be very difficult, time consuming and costly to complete. The new system is based on a more modern, flexible and adaptable technology base that will allow for an improved ability to secure and retain IT expertise and to implement both required and desirable changes much faster and at lower cost.

- The technology solution will allow for quicker and more efficient business enhancements and more efficient implementation of legislative and regulatory changes.
- More common development tools will allow for quicker learning and greater availability of development resources.

Enhanced services to members, beneficiaries, employers and staff

The new pension administration system will provide a more modern, flexible and robust platform for users, enhancing services to members and improving the work environment and internal efficiency. The new solution will offer increased self-service to members, employers and employees, and response time will be reduced as stakeholders are able to access and make changes to their own account information rather than submitting a paper request or calling a contact center.

- Staff will have enhanced usability with a more modern interface and system functionality.
- A modern, flexible system will allow workflow configuration to optimize how work gets processed.
- Automated eligibility verification for retirement and survivor benefits will reduce manual and time-consuming eligibility determinations.
- Online processing will provide efficient responses to member account balance and benefits statement requests.
- Members and employers will have more online services and more accurate calculators for benefit and service credit purchase estimates.
- Employer functionality will allow employers to upload forms to CalSTRS directly instead of faxing or mailing paper forms.
- Members will have more online access to their correspondence from CalSTRS.

Long-term operational efficiencies

The technology and features of the new pension administration system, including case management, automated workflow, user friendly portals, appointment scheduling tools, and communications and knowledge management capability, will improve staff tools and access to information. Additionally, standardized business rules, higher quality data, reduced manual entry and automated processing will result in more accurate benefit calculations and benefit determination. The new system will also provide an opportunity to design and implement integrated, more efficient end-to-end business processes across CalSTRS.

- The technology solution will provide improved workload management through automated hand-offs and touchpoints across business functions and will reduce duplicate entry of existing system data.
- Imaged documents will be viewed through the new system, so staff will no longer need to open the imaging system separately.
- Automation of some current manual processes related to survivor benefits, service retirement, the Cash Balance Benefit Program and the Replacement Benefits Program will provide streamlined processing.
- The technology solution will reduce the need for reliance on support applications (Excel, Access, etc.).
- The New File Format for employer reporting will increase accuracy of downstream calculations by expanding employer-reported data.
- Business rules that guide member data entry on online applications will result in fewer errors and less rework for members and staff.

Improved internal controls

Although CalSTRS utilizes many manual internal controls, establishing integrated, automated controls across all member and employer activity, including recording audit trails, minimizing manual entries and maximizing data integrity and security, will provide an enhanced control environment.

- Audit tracking will be more robust.
- The technology solution will provide role-based system access for security permissions and separation of duties (processor vs. approver).
- Processing across business areas will be more consistent.
- The New File Format for employer reporting will enhance quality of employer-reported data.
- Less manual entry of data will result in stronger, higher-quality data in the system.

Project oversight

To help achieve project goals and objectives, CalSTRS has engaged an independent project oversight consultant (IPOC) and an independent verification and validation consultant (IV&V).

IPOC responsibilities include:

- Monitoring the project and reporting on the project's progress and health.
- Analyzing the schedule, scope and budget are in compliance with project requirements.
- Identifying and reporting significant project risks and issues.

IV&V responsibilities include:

- Assessing technical and developmental project deliverables, related processes and operations oversight.
- Performing quality control to ensure quality results through best practices and standards.
- Providing risk assessments and recommendations.

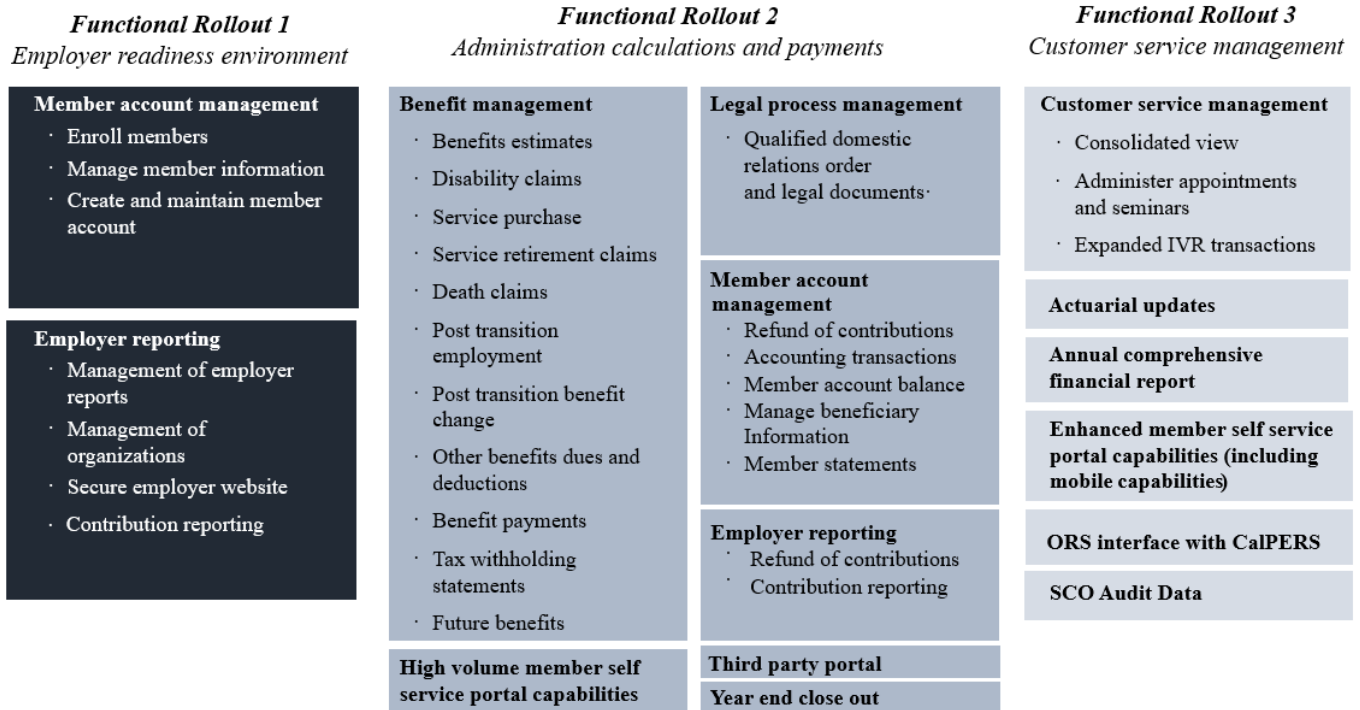
Initial implementation strategy

The original system integrator (OSI) contracted to configure and implement the new pension administration system, which is owned and developed by the OSI's subcontractor, and established a three functional release rollout strategy to execute the project. The initial implementation strategy was based on a multi-phase rollout of the solution, which became known as Functional Rollout 1, Functional Rollout 2 and Functional Rollout 3. The multi-rollout approach was designed to enable multiple development and test teams to work concurrently.

Each functional rollout started with the high-level requirements and conceptual design and then moved to a much lower level to define and complete the detailed functional and technical work required to implement the specified functionality. In large system implementations, including the Pension Solution Project implementation, the transition from higher level conceptual design, requirements and schedules to the vastly more detailed work necessary to build out the system is complex, challenging and often subject to change.

The following graphic represents the functional roll-outs and key capabilities associated with each rollout.

Initial implementation strategy



Key accomplishments

Since implementation commenced in 2015, the project has achieved several noteworthy milestones and accomplishments, which include:

- Completed software solution foundational architecture design.

- Conducted Joint Application Design sessions to elicit decisions on how CalSTRS wants the functionality to work.
- Performed custom development to address requirements not in the framework.
- Performed testing on custom developed software code.
- Proceeded with soft launch of Functional Rollout 1 in the employer readiness environment.
- Converted 99% of 2.18 billion legacy data records.
- Implemented lessons learned to increase quality and efficiencies moving forward.

Key project challenges

Although the project has achieved many milestones and realized many successes as previously highlighted, the project has experienced some challenges and delays. Decreasing pass rates of contractor acceptance testing of the OSI software code, greater than expected defects and low pass rates of functionality passed to user acceptance testing (UAT) effectively delayed progress on the project. Throughout this period, CalSTRS continued to work with the OSI on mitigations to resolve delays by shifting resources to resolve project constraints, replanning and reprioritizing work to minimize schedule impact, tightly limiting project scope and exploring alternative rollout strategies to lessen the risk and impact to business operations.

Subsequently, the OSI developed a revised draft schedule during fall 2021, and CalSTRS and the OSI conceptually agreed to a combined Functional Rollouts 2 and 3 for an October 2023 go-live. However, the project was unable to achieve sustained test execution rates, test case pass rates and problem incident report³ resolution rates. Additionally, staffing issues during the COVID-19 pandemic, particularly for the OSI, exacerbated these challenges. Ultimately, the last revised schedule submission from the OSI was not accepted by CalSTRS as many of the proposed project execution due dates were deemed unachievable.

Project transition period: July 1, 2022, through June 30, 2023

Technology vendor transition

As a result of the project challenges, in July 2022, the OSI and CalSTRS mutually agreed that the OSI would transition the remaining portion of the project to another technology vendor at the conclusion of their contract term on June 30, 2023. To ensure progress continued on the project during the transition, CalSTRS executed a formal agreement with the OSI's subcontractor as the provisional technology vendor (PTV) to provide services during the interim services period (ISP), from July 1, 2022, through June 30, 2023. Additionally, to ensure knowledge transfer, the OSI would also continue to provide some essential services at CalSTRS' direction through the end of their contract in June 2023.⁴

During the ISP, the PTV has focused on system quality and analyzing opportunities for improvement, reducing the current backlog of defects and continuing to address essential services such as system testing. Concurrently, CalSTRS is developing future procurements for implementation to bring the project to completion.

ISP key activities and progress⁵

During the ISP, CalSTRS staff have continued to work on *knowledge transfer* and *ISP planning and execution activities*. Key activities and progress during the ISP are summarized below.

- **Knowledge transfer:** Over 100 sessions to transfer knowledge regarding project tasks from the OSI to the PTV and CalSTRS were completed by the end of September 2022. Successful

³ Problem incident reports represent software code fixes and redesign.

⁴ Additional details are provided in the July 2022 Teachers' Retirement Board [Item 7g - Contracts Requiring Board Approval](#).

⁵ Additional details are provided in the January 2023 Teachers' Retirement Board [Item 6 - Pension Solution Project Update](#).

execution of this transition enables the PTV and CalSTRS to manage and support project tasks that previously were the OSI's responsibility.

- **ISP planning and execution:** During the ISP, the PTV is focused on design and development, system testing, and fixing defects. The PTV ramped up staff to provide these ISP services and has onboarded over 80 additional resources. CalSTRS and the PTV have partnered to jointly plan and address issues with system functionality in a pilot that prioritized functionality by Business Scenario Groups (BSGs).⁶ By the end of December 2022, testing for the first BSG track was successfully completed on time. The following functions are now materially complete, and subject to final UAT, members, employers and CalSTRS will be able to:

Members

- Securely update bank account information online.
- Select how they want to receive benefit payment statements and other correspondence.
- Be notified electronically when there are documents available to view.

Employers

- Update member account information and process transactions online.
- Associate contribution payments to the appropriate files.
- Enable report sources to submit files via the employer portal contribution file.

CalSTRS

- Process members' most common service credit purchase requests.
- Validate member and employer contributions are correctly posted to the financial system.
- Process beneficiary elections for one-time death benefits, preretirement options and replacement beneficiaries; and send appropriate communication confirming these changes.

Path forward: July 1, 2023, through implementation

Path forward strategy

To ensure continuity of critical system implementation activities, CalSTRS has established and implemented a new path forward strategy, serving as an integral component for long-term success of the project. Looking ahead, and planning for fiscal year 2023–24, updates to CalSTRS' path forward will commence after the ISP, effective July 1, 2023, and run through system implementation, which will be determined after acquiring a new system implementation vendor(s).

To better position the project for the path forward, CalSTRS will build upon the work initiated during the ISP and continue integration of additional internal staff and resources. Additionally, staff will continue key path forward activities, composed of the *project status assessment*, *procurement for a new system implementation vendor(s)*, *project improvements*, and a specific internal project improvement effort, known as "*Strengthen our Foundation*," to bring the project to completion. Additional detail regarding key path forward activities is provided below:

- **Project status assessment:** CalSTRS hired a contractor to document the project status and help inform the scope of work for the future procurement(s). The contractor reviewed project artifacts, interviewed project staff and developed findings and recommendations. The project team has reviewed their findings and recommendations and is developing action items to address them.
- **Procurement for system implementation vendor(s):** CalSTRS is continuing the development of the future procurement for a new system implementation vendor(s), which is a critical component of the path forward strategy to lead the project to completion. The procurement approach was developed with input by California Department of Technology, as well as CalSTRS' procurement staff and the project's IV&V and IPOC.

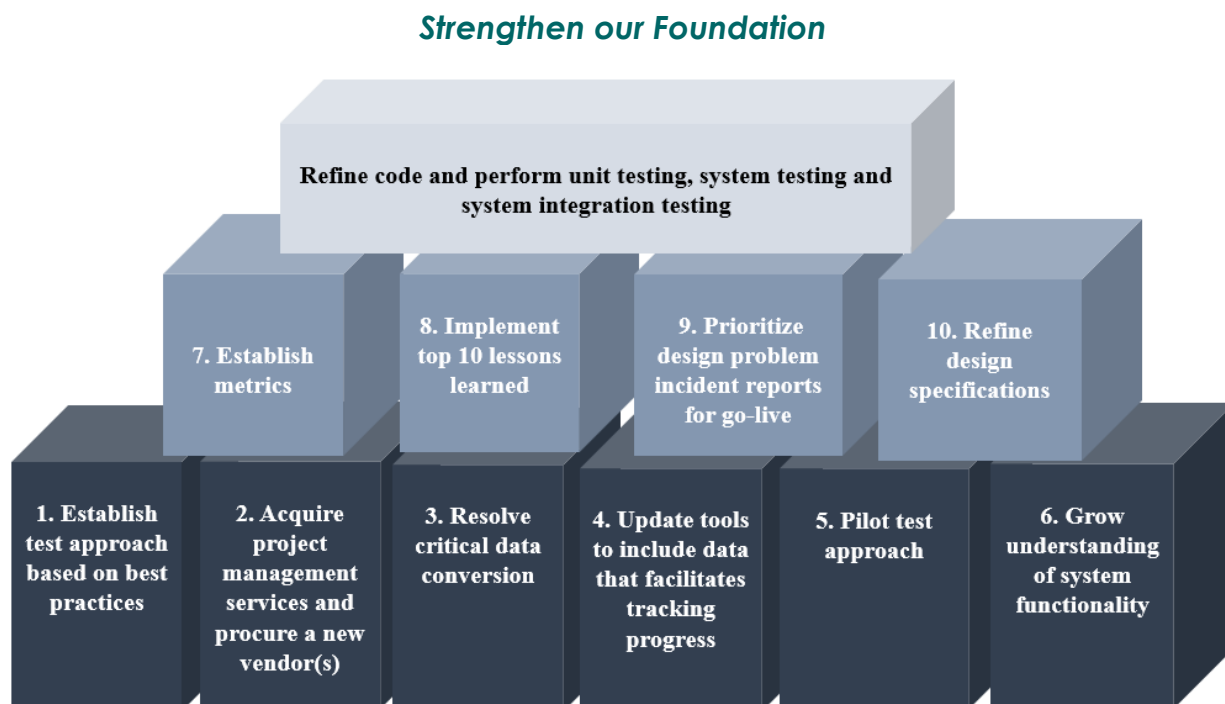
⁶ BSGs represent teams focused on a prioritized list of foundational system functionality by business process.

- **Project improvements:** Sessions to identify potential improvement opportunities for various parts of the project have been completed; the project team has identified root causes and drafted recommendations to address these areas. These recommendations are being implemented during the ISP, and such improvements will be incorporated into the future procurement(s) as appropriate. This prioritization and alignment of resources is a major project improvement, and the project team is pleased with the progress.
- **Strengthen our Foundation:** During the interim services period, CalSTRS staff have also initiated a specific internal project improvement effort, known as “*Strengthen our Foundation.*” Reinforcing the project foundation is critical to ensuring the organization is best prepared to successfully deploy the new pension administration system.

Work to strengthen the foundation includes:

- Conducting a retrospective assessment and implementing lessons learned.
- Adopting updates to methodology, best practices, processes, and industry information technology standards.
- Restructuring project staffing and governance.
- Reinforcing project structure and processes.
- Evaluating how future project execution efforts and strategies can be improved.
- Refining the test approach.
- Resolving critical software code fixes and data conversion.
- Updating tools to track progress and metrics.
- Hiring and acquiring project resources.

The following graphic represents the “bricks” that compose this project improvement effort:



Operating concurrently, each brick represents, as described in more detail below, a critical step in our path forward strategy to ensure successful completion of the project, which encompasses clear objective setting, resource allocation and prioritization.

Brick 1 – Modify testing approach to align with updated best practices.

Brick 2 – Acquire project management services and procure a new vendor(s) responsible for planning, organizing and directing the completion of project activities.

Brick 3 – Resolve problem incident reports that are impeding data conversion activities.

Brick 4 – Ensure all historical project-related artifacts and data are entered into project tracking tools to provide a comprehensive and accurate view of scope and project status.

Brick 5 – Address issues with system functionality in a pilot test approach that prioritizes functionality by BSGs.

Brick 6 – Build knowledge base of the business and solution technology for new internal and external project team members.

Brick 7 – Establish metrics to report on the project progress during the ISP.

Brick 8 – Assess what has or has not worked and how future execution strategies can be improved.

Brick 9 – Prioritize problem incident reports that need to be resolved prior to go-live and move non-essential problem incident reports to the enhancement period.

Brick 10 – Redesign specifications for the problem incident reports that need to be resolved before go-live so the scope is contained.

Some project efficiencies have already been identified and executed based on work completed for the “*Strengthen our Foundation*” effort. As previously mentioned, the project originally had a multi-phased rollout of the solution that became known as functional rollouts. Functional Rollout 1, which related to employer readiness, was soft launched in October 2019. However, testing for Functional Rollouts 2 and 3 has not yet been completed. As part of the “*Strengthen our Foundation*” effort, the three sets of software code pertaining to the functional rollouts was merged. This will result in fewer and more efficient testing cycles.

Risk mitigation

CalSTRS has also taken into account issues that have historically caused project delays. To help mitigate these risks, the following items were considered and are built into the path forward strategy:

- Limiting changes to scope. Only problem incident reports that are required for go-live and statutory and regulatory changes will be allowed with few exceptions requiring executive approval.
- Merging three sets of software code (known as functional rollouts) to reduce the number of iterations of testing.
- Ensuring the testing plan aligns with updated industry best practices.
- Ensuring updated best practices are being utilized to monitor project progression.
- Detecting potential issues early through quality management reviews and reporting to executives.

Budget overview

Pension Solution Project budget summary

The current Pension Solution Project budget is \$334.8 million. This proposal includes \$87.2 million in one-time budget authority to fund internal and external resources to continue system implementation activities in fiscal year 2023–24. This adjustment will bring the interim project budget to \$422.0 million.

The following table provides a summary of the Pension Solution Project budget from fiscal year 2010–11 through fiscal year 2023–24, and summarizes the history of previous funding sources and budget change proposals to fund the project.⁷

Pension Solution Project budget summary

Pension Solution Project Budget (dollars in millions)	
2010–11 through 2022–23 Internal Funding ⁸	\$68.8
2014–15 through 2019–20 Pension Solution Project BCP #1	213.0
2020–21 Pension Solution Project BCP #2	53.0
Current Pension Solution Project Budget	\$334.8
2023–24 Pension Solution Project BCP #3	87.2
Interim Pension Solution Project Budget	\$422.0

2023–24 cost estimate methodology

The methodology to develop the fiscal year 2023–24 budget of \$87.2 million encompassed an in-depth review and analysis of historical data for internal staff and contract labor as well as vendor services. The review and analysis included an assessment of historical information for equivalent services and activity levels, and the number of internal staff and contractor hours required to complete various scopes of work and service functions. In addition, standard escalation factors were applied to account for inflationary adjustments.

Project schedule and budget to complete the project

As part of the path forward strategy, CalSTRS will continue integration of additional internal resources in addition to acquiring a new system implementation vendor(s) to complete the project. Once a new system implementation vendor(s) is acquired, and costs are refined, CalSTRS will have sufficient information to develop and establish an updated project schedule and quantify the impact on the budget. Upon completion of these activities, CalSTRS will submit a budget change proposal during the 2024–25 budget cycle. As part of the 2024–25 budget change proposal, CalSTRS will true-up any changes to the 2023–24 one-time cost estimate of \$87.2 million as part of the budget to complete the project.

⁷ Additional details regarding the history of the previous funding requests are provided in the [2020-21 Pension Solution Project Budget Change Proposal](#).

⁸ Funds designated to the Pension Solution Project are from various annual Information Technology Project Funding appropriations and the Teachers’ Retirement Fund support appropriation savings.

E. Outcomes and Accountability

This proposal is consistent with CalSTRS' fiduciary responsibility and commitment to its members by ensuring the transition to the new pension administration system before our current system is no longer technologically sustainable.

The implementation of the new pension administration system and associated business and data management processes will have a significant impact on CalSTRS' members, beneficiaries, employers and staff. Once operational, the new system will enable CalSTRS to:

- Increase ability to respond to customer and business needs.
- Enhance services to members, beneficiaries, employers and staff.
- Gain long-term operational efficiencies.
- Improve internal controls.

As trusted fiduciaries, it is CalSTRS' responsibility to ensure the prudent use of the system's resources. From an accountability perspective, we continue to strive towards ensuring a successful and cost effective system implementation through our path forward strategy.

To promote accountability and transparency, CalSTRS will continue to provide Pension Solution Project updates at Teachers' Retirement Board meetings and will provide quarterly updates to the Department of Finance as specified in 2023–24 California Budget Bill language.

F. Analysis of All Feasible Alternatives

Alternative 1: Support this proposal for \$87.2 million in one-time funding authority for internal and external resources to continue fiscal year 2023–24 system implementation activities for the Pension Solution Project. Funding for this proposal will be effective July 1, 2023, and will be available for encumbrance or expenditure through June 30, 2025, and for liquidation through June 30, 2027. Additionally, this proposal includes an extension of the existing Pension Solution Project appropriations through June 30, 2025, for encumbrance or expenditure and through June 30, 2027, for liquidation.

Pros:

- Enables continuity of critical system implementation activities in fiscal year 2023–24, thereby reducing future operational risk to CalSTRS' existing information technology architecture, by ensuring that we transition to the new pension administration system before the current system is no longer technologically sustainable.
- Provides necessary funding to continue integrating internal resources and to procure a new system implementation vendor(s) to complete the project.
- Aligns with the board's plenary authority and fiduciary responsibility for the investment of monies and administration of the system.
- Aligns with the board's approval of \$87.2 million to continue critical system implementation activities in fiscal year 2023–24 and avoid costly delays.
- Promotes CalSTRS' ability to accomplish strategic plan goals and objectives.
- Enables CalSTRS to stay aligned with a comprehensive amount of collaborative work currently underway with key stakeholders and impacted parties.

Cons:

- Requires additional budget to fund internal and external resources to continue critical system implementation activities in fiscal year 2023–24.

Alternative 2: Deny this proposal.

Pros:

- Temporarily eliminates the need for additional budget to fund internal and external resources to continue critical system implementation activities in fiscal year 2023–24.

Cons:

- Hinders CalSTRS' ability to adequately resource the Pension Solution Project in fiscal year 2023–24 to continue system implementation activities.
- Poses significant impact on the continuity of project activities. CalSTRS would be unable to continue integrating additional internal resources or to procure a new system implementation vendor(s) to complete the project.
- Conflicts with the board's plenary authority and fiduciary responsibility for the investment of monies and administration of the system.
- Conflicts with the board's approval of \$87.2 million to continue fiscal year 2023–24 system implementation activities.
- Inhibits CalSTRS ability to accomplish strategic plan goals and objectives.

- Will result in higher maintenance and operations complexity and ongoing costs in the long term.
- Will result in extensive communication and re-planning that would need to occur between CalSTRS and key vendors and stakeholders, equating to higher cost in the long term.
- Hinders CalSTRS' ability to address significant technology and cost concerns with START, an aging mainframe-based technology, which is not fiscally sustainable. Additionally, this poses significant operational risk for CalSTRS, such as the inability to meet our over \$1.5 billion in monthly benefit payments resulting in economic loss and hardship for our members and their beneficiaries

G. Implementation Plan

CalSTRS will implement this proposal as soon as the resources are available.

H. Supplemental Information

Supplemental detail is provided in the *Budget Change Proposal Fiscal Detail Sheet*.

I. Recommendation

Support this proposal for \$87.2 million in one-time funding authority for internal and external resources to continue fiscal year 2023–24 system implementation activities for the Pension Solution Project. Funding for this proposal will be effective July 1, 2023, and will be available for encumbrance or expenditure through June 30, 2025, and for liquidation through June 30, 2027. Additionally, this proposal includes an extension of the existing Pension Solution Project appropriations through June 30, 2025, for encumbrance or expenditure and through June 30, 2027, for liquidation.

BCP Fiscal Detail Sheet

BCP Title: Pension Solution Project

BR Name: 7920-018-BCP-2023-A1

Budget Request Summary

Operating Expenses and Equipment

Operating Expenses and Equipment	FY23 Current Year	FY23 Budget Year	FY23 BY+1	FY23 BY+2	FY23 BY+3	FY23 BY+4
5301 - General Expense	0	87,173	0	0	0	0
Total Operating Expenses and Equipment	\$0	\$87,173	\$0	\$0	\$0	\$0

Total Budget Request

Total Budget Request	FY23 Current Year	FY23 Budget Year	FY23 BY+1	FY23 BY+2	FY23 BY+3	FY23 BY+4
Total Budget Request	\$0	\$87,173	\$0	\$0	\$0	\$0

Fund Summary

Fund Source

Fund Source	FY23 Current Year	FY23 Budget Year	FY23 BY+1	FY23 BY+2	FY23 BY+3	FY23 BY+4
State Operations - 0835 - Teachers' Retirement Fund	0	87,173	0	0	0	0
Total State Operations Expenditures	\$0	\$87,173	\$0	\$0	\$0	\$0
Total Expenditures	\$0	\$0	\$0	\$0	\$0	\$0
Total All Funds	\$0	\$87,173	\$0	\$0	\$0	\$0

Program Summary

Program Funding

Program Funding	FY23 Current Year	FY23 Budget Year	FY23 BY+1	FY23 BY+2	FY23 BY+3	FY23 BY+4
6450 - Service to Members and Employers	0	87,173	0	0	0	0
Total All Programs	\$0	\$87,173	\$0	\$0	\$0	\$0