Cheiron
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# Ensuring Fiscal Integrity of STRS Ohio

## Sustainable Benefits Enhancement Plan – Part 1 Discussion

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- Background
- Fiscal Integrity – What
- Fiscal Integrity – Why
- Fiscal Integrity – How

# Background

*The Board may adjust certain benefits of the System if the Board actuary determines that the adjustment does not materially impair the fiscal integrity of the system, or is necessary to preserve the fiscal integrity of the system*

# Fiscal Integrity - What

- What is Fiscal Integrity?
  - – Not defined in legislation
  - – What are the characteristics of a system with fiscal integrity

# Fiscal Integrity - What

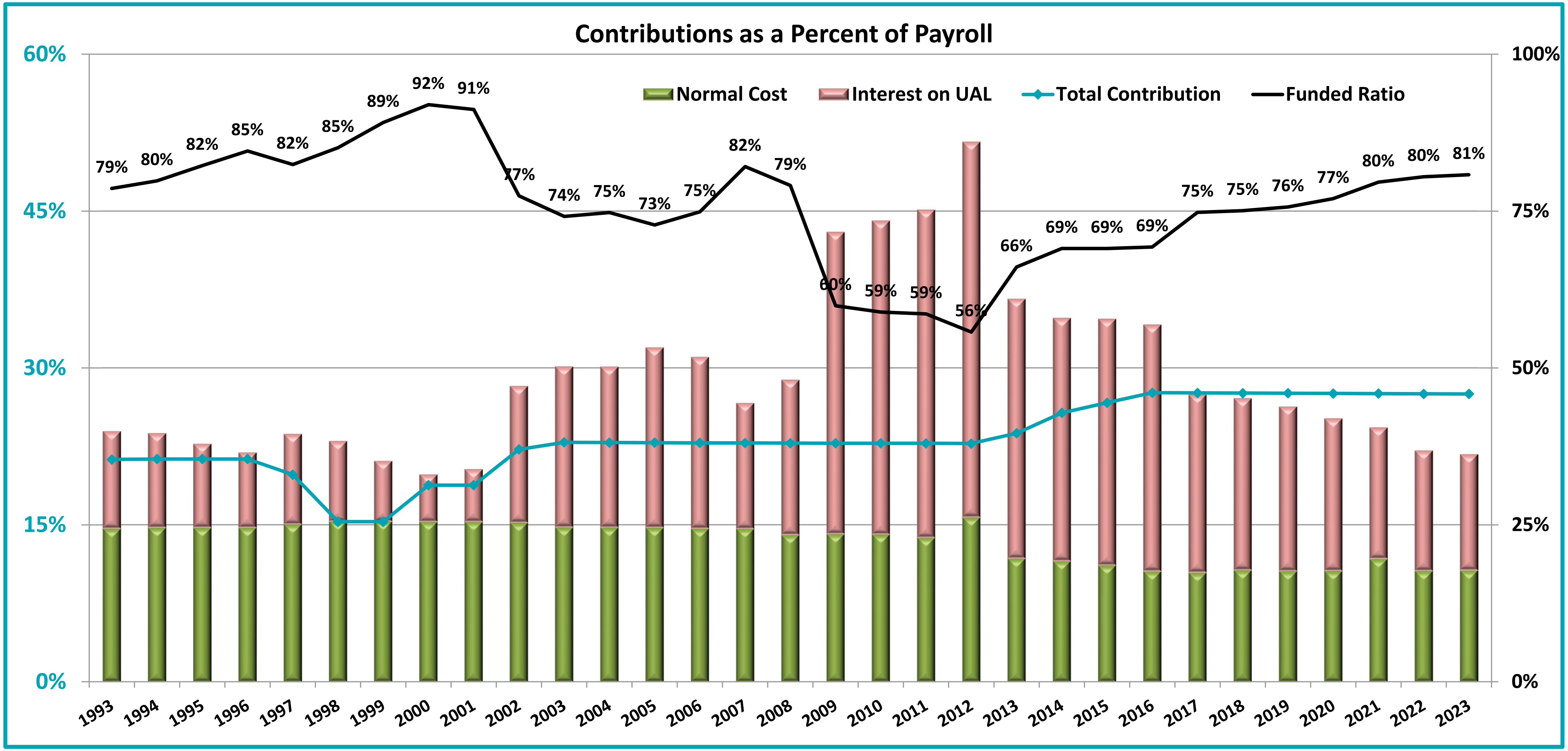
- Other types of Integrity
  - Banking system
    - Strong regulation and oversight
    - Robust risk management practices
    - Adequate capital requirements
    - All meant to maintain stability and build public trust
  - Structural integrity
    - A building's ability to withstand forces and transfer loads safely
    - Key concepts include strength, stability, and flexibility
    - Materials, connections, load paths, and redundancy all contribute

# Fiscal Integrity - Why

- Why is this requirement included in Ohio Law?

- Why does the actuary need to make a determination prior to a benefit enhancement?

# Fiscal Integrity - Why



# Fiscal Integrity – How

- How do we assess fiscal integrity in the system?
  - Current funding level
  - Current progress toward full funding
  - Expected future conditions
  - Ability to withstand shocks
  - Stress Testing

# Next Steps

- Prior to March – Cheiron to re-evaluate analysis of fiscal integrity based on today's discussion
- March – Cheiron to return with SBEP budget
- March – Cheiron to update modeling tool to provide Board with planning scenarios
  - Meaningful enhancement timing
  - Required return to achieve desired enhancement budget
  - Impact of employer contribution increases
- April – TBD

# Appendix

# Fiscal Integrity Tests

- To comply with Ohio law, Cheiron developed three ‘fiscal integrity’ tests to evaluate whether a change would materially impair the fiscal integrity
  1. Do current contributions exceed treadwater(1)?
  2. Years to exceed treadwater after “shock”(2) investment return
  3. Probability of contributions exceeding treadwater in 10 years

(1) *Treadwater = normal cost + interest on unfunded liability*
(2) *Shock = 2 standard Deviations below the expected return of 7%*

# Sustainable Benefit Enhancement Plan

- Sustainable Benefit Enhancement Plan (SBEP) provides the Board a framework to understand what, if any, budget for sustainable enhancements is available each year
  – Test 1 – Amount A by which contributions exceed treadwater by a margin of 25%
  – Test 2 – Amount B which still allows contributions to exceed treadwater following a “black swan” asset return within 5 years
  – Test 3 – Amount C such that probability that contributions will exceed treadwater in 10 years is above 80%