



## Pension valuation report shows slight funding gains in fiscal year 2018



During the October meeting of the State Teachers Retirement Board, the board's new actuarial consultant, Cheiron, presented the results of its July 1, 2018, pension valuation report. This report provides a detailed look at the financial and actuarial health of the pension fund — a "snapshot" of the fund as of July 1, 2018. The valuation process includes collecting member data, retirement plan provisions and asset information — then applying economic and demographic assumptions to project all future benefit payments (also referred to as actuarial liabilities). The actuary then determines the present value of the projected benefits and compares that value to the retirement plan's actuarial assets.

### ***Cheiron's report noted that the (STRS Ohio) plan's funded ratio has been steadily improving since 2013.***

The most common ways to express the system's financial and actuarial condition are through the funded ratio and the funding period. Cheiron's report noted that the plan's funded ratio has been steadily improving since 2013. This year's valuation report shows the funded ratio — the value of actuarial assets compared to the actuarial accrued liabilities — improved slightly to 75.5% from 75.1% last year. This means if STRS Ohio meets all future assumptions, including its assumed investment return rate of 7.45%, the fund has about 75 cents on hand for every dollar of benefits projected to be paid to members of the system. The shortfall between STRS Ohio's actuarial assets and liabilities is called the unfunded actuarial liability. STRS Ohio's unfunded actuarial liability decreased slightly to \$23.79 billion, down from \$23.91 billion last year. The funding period — the amount of time needed until assets match actuarial liabilities — also improved, decreasing to 17.8 years from 18.4 years last year.

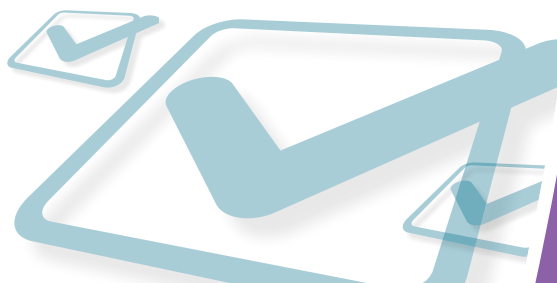
While the funding level improved incrementally in fiscal year 2018, staff estimates STRS Ohio faces about a 29% chance that the pension fund could drop below a 50% funded ratio in the next 10 years. This is primarily due to the volatility around investment returns. The board and staff believe this risk level is too high and will continue to focus on improving the long-term sustainability of benefits.

The valuation report measures two sets of assumptions — economic and demographic — against the system's actual experience from the past year. Economic measures include the rate of inflation, return on assets, salary increase and payroll growth. Demographic measures include retirements, disability inceptions, withdrawals and mortality (the number of deaths among active members and benefit recipients).

The valuation report indicated STRS Ohio has a net \$1.8 billion in deferred investment gains that will be recognized over the next three years. The pension valuation uses a common actuarial technique called "smoothing" to spread investment market volatility over a four-year window rather than a one-year "spike." Last year's valuation report showed a net \$155 million in deferred gains to be recognized.

### **Other key points from this year's valuation report include:**

- **Investment returns for fiscal year 2018 topped 9.5% and helped account for part of the funding improvement.**
- **STRS Ohio's Defined Benefit and Combined Plans paid about \$7.1 billion in benefits during the fiscal year.**
- **Total covered payroll increased by 3.2% during the fiscal year, slightly ahead of the system's 3% payroll growth assumption.**



## Retirement Board election process underway

The contributing member seat currently held by Taiyia Hayden will be up for election in 2019. The four-year term for this seat will begin on Sept. 1, 2019, and run through Aug. 31, 2023. Board members are not compensated for board service but may be reimbursed for actual necessary expenses incurred while serving on the board.

Members eligible to run are current contributing STRS Ohio members, members who have contributions on deposit at STRS Ohio and disability benefit recipients. Individuals interested in running for this seat can request petition forms from STRS Ohio by calling toll-free 888-227-7877. Election information is also posted on the STRS Ohio website, [www.strsoh.org](http://www.strsoh.org). STRS Ohio members will receive their ballots and voting information in April 2019 and will have through May 6, 2019, to cast their votes by mail, phone or online.

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# Benefits, Investments and Financial News Update

## STRS Ohio total fund returns +9.57% for fiscal year 2018; active management adds \$350 million in value

STRS Ohio's total fund return for the year ending June 30, 2018, was +9.57%. This follows returns of +14.29% in fiscal year 2017 and +0.92% in fiscal year 2016. The value of investment assets as of June 30, 2018, was \$77.7 billion, an increase of about \$2.6 billion from the June 30, 2017, level of \$75.1 billion.

The return beat the total fund benchmark by +0.63%. The system's active management of the funds, rather than relying on index funds, added approximately \$350 million in value after all investment costs during the fiscal year. STRS Ohio's fiscal 2018 return ranked in the top 20% of Callan's public fund sponsor database. Callan serves as an investment consultant to the Retirement Board. The positive performance was led by a +16.21% return on domestic equities and a +13.59% return on alternative investments.

**STRS OHIO'S  
FISCAL 2018 RETURN  
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SPONSOR DATABASE**

While the fiscal 2018 return topped the fund's actuarial assumed rate of return, STRS Ohio's investment consultant continues to call for lower than normal returns over the next decade. STRS Ohio manages about 70% of its assets through its in-house investment department. A report by CEM Benchmarking, a leading global research company, shows that STRS Ohio's internal investment strategy is a key reason the

retirement system has the third lowest investment costs in its peer group of 17 large U.S. public fund sponsors. The report showed STRS Ohio saved about \$101 million in calendar year 2016 by using this internal management approach. A portion of compensation for STRS Ohio's investment staff is earned through performance-based incentive (PBI) payments. Based on the investment performance for fiscal year 2018, as well as the trailing five-year period, the Retirement Board approved PBI payments totaling approximately \$8.89 million at its September 2018 meeting.

### STRS OHIO'S RETURNS OVER VARIOUS TIME PERIODS

5-year total fund return	9.26%
10-year total fund return	7.04%
20-year total fund return	6.78%
30-year total fund return	8.57%
Current assumed actuarial rate of return	7.45%

## Fiscal 2019 budget reflects 2.2% increase; fiscal 2018 operating expenses finish under budget

STRS Ohio's adopted operating budget for fiscal year 2019 totals about \$101.7 million, an increase of 2.2% over the fiscal 2018 budget. Final figures for fiscal 2018 show that STRS Ohio operating expenditures were approximately \$96.5 million, about \$637,000 less than the budgeted amount. The Retirement Board and staff continue to pay close attention to system expenses. The fiscal 2019 budget calls for a fifth straight year of declines in the total number of associates. STRS Ohio budgeted for 538 full-time equivalent associates, down from a high of 735 associates in 2001. Other cost efficiency measures include lower spending on printing costs as more members opt for STRS Ohio's online services.

## STRS Ohio receives Certificate of Transparency from NCPERS

The National Conference on Public Employee Retirement Systems (NCPERS) recognized STRS Ohio with a Certificate of Transparency for participating in the 2017 NCPERS Public Retirement Systems Study. The purpose of the study was to support open disclosure and data collection, as well as to encourage the public's understanding of public retirement systems. STRS Ohio and other systems that participated in the study provided NCPERS with information on retirement plan design, investment allocation and returns, actuarial assumptions and plan governance practices. Results of the 2017 survey, along with results from past years, are available at [www.ncpers.org/surveys](http://www.ncpers.org/surveys).

## STRS Ohio earns GFOA Certificate of Achievement for its Comprehensive Annual Financial Report

The Government Finance Officers Association (GFOA) awarded STRS Ohio its Certificate of Achievement for Excellence in Financial Reporting for the system's **Comprehensive Annual Financial Report** (CAFR) for the fiscal year ended June 30, 2017. This award is the result of a coordinated effort and input from many departments including Communication Services, Finance, Investments, ITS and Member Benefits. The GFOA technical review identified three minor suggestions for improvement in the 2017 report that staff will evaluate for the current year CAFR. STRS Ohio has received the GFOA award each year since 1990. Staff consolidates financial, investment, actuarial and statistical information into one publication that meets the standards established by the GFOA to receive this recognition.



STRS Ohio wants you to be safe from phone and online scams. Hackers and scammers seem to become more sophisticated in their approach every day. Beware of common phone scams that offer a free prize or ask for your bank account number, debit or credit card information or your Social Security number. These same tips apply to your email as well.

The Federal Trade Commission's Consumer Information portion of its website offers online security tips on phone scams, computer and laptop security, online scams, how to dispose of old computers and mobile devices and more. You can find this information at [www.consumer.ftc.gov/topics/privacy-identity-online-security](http://www.consumer.ftc.gov/topics/privacy-identity-online-security).

# STRS Ohio addresses concerns about the **cost-of-living adjustment**

STRS Ohio knows that active and retired members are interested in the status of future cost-of-living adjustments (COLA). The board's 2017 decision to reduce the cost-of-living adjustment to 0% is part of a long-term plan to strengthen the financial condition of the retirement system. It is important for STRS Ohio members to know:

- **The board evaluated numerous benefit plan design changes, but only the COLA change had the necessary financial impact on the pension fund.** One of the board's Guiding Principles is to "Make decisions that produce the greatest sustainable benefits for our members." This applies to all members of the system — both active and retired. The action taken to reduce the COLA is not a short-term fix. It is intended to improve the fund's long-term sustainability.
- **The board will evaluate — not later than the next five-year actuarial experience review expected in 2022 — whether an upward adjustment of the COLA is payable** without materially impairing the fiscal integrity of the retirement system.
- **The Retirement Board's decision to reduce COLAs granted on or after July 1, 2017, to 0% was made in accordance with Ohio law** which allows the board to adjust the COLA if an actuarial valuation determines that an adjustment is necessary to preserve the fiscal integrity of the system.
- **The board's 2017 pension valuation showed that without the action to reduce the COLA, the pension funding period for STRS Ohio would have been 50.4 years. That means it would take 50.4 years** until STRS Ohio is 100% funded — when the plan assets are equal to the earned benefits of the membership. When the funding period exceeds 30 years, STRS Ohio must submit a plan to the Ohio legislature to reduce the funding period to less than 30 years.
- **The assumed investment return of 7.45% is at the upper end of a range identified by STRS Ohio's independent actuaries** for the asset mix recommended by the retirement system's retained investment consultant. STRS Ohio's assumed investment return of 7.45% was lowered from 7.75% in 2017 following an in-depth experience review and asset-liability study. Maintaining or even increasing the assumed rate of return would have put STRS Ohio out of step with the forecasts and recommendations of its investment and actuarial consultants.
- **Even with the COLA reduced to 0%, STRS Ohio still faces about a 29% chance that the pension fund could drop below a 50% funded ratio in the next 10 years.** This is primarily due to volatility of the investment markets and STRS Ohio's asset mix.

The Retirement Board and staff continue to review the financial and actuarial condition of the pension fund. The system's actuary completes a pension fund valuation report each year that gives an in-depth look at the actuarial position and can be used as one measure for future benefit considerations (see story on Page 1).



## Health care plan premiums available on STRS Ohio's website

For many STRS Ohio members, projecting future health care costs are an important component in determining their financial needs in retirement. Members can review a complete list of 2019 premiums for all STRS Ohio health care plans on the STRS Ohio website at [www.strsoh.org](http://www.strsoh.org). You may also request a copy by calling the Member Services Center toll-free at 888-227-7877.

### Approved health care program change announced

STRS Ohio offers a health care program to eligible benefit recipients. Access to health care coverage is optional and is not guaranteed under Ohio law; however, STRS Ohio understands that access to health care coverage is important to many members. For the 2019 plan year, the only plan design change is a \$100 increase in the out-of-pocket limit for prescriptions to \$5,100 from \$5,000.

### Health Care Fund continues to strengthen; board aims to preserve fund stability

At its October meeting, the Retirement Board's actuarial consultant, Cheiron, presented the results of its valuation report for the Health Care Fund. Good claims experience had a positive impact on the fund. The fund balance increased to \$3.72 billion as of July 1, 2018, up from \$3.69 billion on Jan. 1, 2018. It is estimated that if the fund earns 7.45% in all future years — which could be challenging in the next decade — and all other plan experience matches assumptions, the fund is projected to remain solvent for all current members.

The board has expressed its interest in developing a plan management policy for the Health Care Fund to provide the guidance necessary to make the health

care program more stable, reliable and secure. With no employer contributions currently going into the Health Care Fund, STRS Ohio staff said the retirement system should position itself to be able to withstand investment market volatility. The Health Care Fund is now funded by premiums paid by enrollees, government reimbursements and investment earnings on these funds.

In the months that follow, the board hopes to finalize its work on the plan management policy. The board would like the policy to address two key principles:

1. The desire to offer a meaningful premium subsidy to plan enrollees, and
2. Sustainability of the fund for current and future plan enrollees.



## RESOURCES



### WEB

www.strsoh.org  
24 hours a day  
contactus@strsoh.org to email



### CALL

Member Services Center  
888-227-7877 (toll-free)  
614-233-8713 (fax)  
8 a.m. to 5 p.m. Monday through Friday

### SOCIAL



## Board adopts new service credit calculation for part-time service, effective July 1, 2019

To ensure that earned service credit is more properly funded, the Retirement Board adopted changes to the way earned service credit for part-time teachers will be calculated beginning next fiscal year.

Beginning July 1, 2019, if total compensation is less than the first step of the state minimum salary schedule, annual service will be the lessor of:

- Actual days or partial days of service divided by 180; or
- Hours of service divided by 1,000 if actual number of days is not available from the employers records; or
- Actual compensation for the year divided by \$12,000

This change may impact part-time teachers or teachers working a certain number of days to reach retirement eligibility. If you think you may be affected by this change and have questions, please call STRS Ohio toll-free at 888-227-7877.

## Retirement Board chair, vice chair named; Price to fill contributing member seat

The State Teachers Retirement Board elected contributing teacher member Carol Correthers (Lorain City Schools, Lorain County) as its vice chair for the September 2018–August 2019 year. According to Board Policy, retired teacher member Robert Stein, who was previously serving as vice chair, automatically moves into the position of board chair. Correthers and Stein assumed their new responsibilities on Sept. 1, 2018.

In August, the board elected contributing teacher member Dale Price (Toledo Public Schools, Lucas County) to fill the seat previously held by Tim Myers, who retired in June. Price recently completed his second term on the Retirement Board, and the term for his new seat expires on Aug. 31, 2020. When a vacancy occurs during the term of office of any elected member of the board, Ohio law directs the remaining members of the board to elect a successor member. Board members receive no compensation for service on the board other than reimbursement for actual, necessary expenses.

### STATE TEACHERS RETIREMENT BOARD

**Robert Stein, Chair**  
Retired Teacher Member

**Carol Correthers, Vice Chair**  
Contributing Member

**Paolo DeMaria**  
Superintendent of  
Public Instruction

**David Gruber**  
Appointed Member

**Taiyia L. Hayden**  
Contributing Member

**Yoel Mayerfeld**  
Appointed Member

**Robert McFee**  
Contributing Member

**Dale Price**  
Contributing Member

**Jeffrey Rhodes**  
Contributing Member

**Wade Steen**  
Appointed Member

**Rita J. Walters**  
Retired Teacher Member



**Michael J. Nehf,**  
Executive Director