Pension, valuation report shows slight improvement in STRS Ohio’s funding status

At the October meeting of the State Teachers Retirement Board, Cheiron, the board’s actuarial consultant, presented its annual pension valuation report. The report showed progress for STRS Ohio’s funded ratio and funding period, as both made slight improvements in this year’s valuation report. The funded ratio is the value of the system’s actuarial assets compared to the actuarial accrued liabilities. Cheiron said the funded ratio improved to 76.1% from 75.5% last year. The funding period is the amount of time needed until actuarial assets match actuarial liabilities — if future experience matches the valuation assumptions. The report showed the funding period improved to 16.6 years in fiscal 2019 from 17.8 years in fiscal 2018.

In May 2019, the Retirement Board adopted amendments to its funding policy following several months of review and discussion. One of the funding objectives in the policy is to reach a funded ratio of 100%, noting that “At 85% or greater, the Board may consider plan changes that in the determination of the Board’s actuary do not materially impair the fiscal integrity of the system.” While the report revealed slight funding improvements, STRS Ohio staff estimates that based on the market volatility associated with the pension fund’s current investment asset mix, the fund has a greater than 25% chance of seeing its funded ratio drop to 50% (or lower) in the next decade.

Cheiron also shared its health care valuation report at the October board meeting. This report showed that the health care fund remains in a solid position despite no new funding for the account. See story on Page 3 for more details. Findings from the pension and health care valuation reports were also shared in Board News, which is distributed following the board meetings to all STRS Ohio members who have an email address on file with the retirement system. Board News is also posted on the system’s website at www.strsoh.org.

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Retirement Board election process underway

The contributing member seat currently held by Dale Price will be up for election in 2020. The four-year term for this seat will begin on Sept. 1, 2020, and run through Aug. 31, 2024. 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. STRS Ohio members will receive their ballots and voting information in April 2020 and will have through May 4, 2020, to cast their votes by mail, phone or online.

Retirement Board chair, vice chair named

The State Teachers Retirement Board elected retired teacher member Rita Walters as its vice chair for the September 2019–August 2020 year. According to Board Policy, contributing teacher member Carol Correthers (Lorain City Schools, Lorain County), who was previously serving as vice chair, automatically moved into the position of board chair. Walters and Correthers assumed their new responsibilities on Sept. 1, 2019.
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.

STRS Ohio total fund returns 7.13% for fiscal year 2019

STRS Ohio’s total fund return for the year ending June 30, 2019, was +7.13%. This follows returns of +9.57% in fiscal 2018, +14.29% in fiscal 2017 and +0.92% in fiscal 2016. Total investment assets increased by $1.1 billion during fiscal 2019 and ended at approximately $78.9 billion (after benefit payments of approximately $7.5 billion).

The fiscal 2019 return slightly trailed the assumed actuarial return of 7.45% and was just below the total investment benchmark return of 7.30%. Despite volatile markets through much of the year, STRS Ohio’s total investment return ranked in the top 20% of investment consultant Callan’s public fund sponsor database. STRS Ohio’s total investment returns also ranked in the top 10% of Callan’s public fund sponsor database for the three-, five-, seven- and 10-year time periods ending June 30, 2019. Callan continues to call for lower than normal market returns over the next decade.

STRS Ohio currently 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 fourth lowest investment costs in its peer group of 17 large U.S. public fund sponsors. The report showed STRS Ohio saved about $95 million in calendar year 2017 alone 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 2019, as well as the trailing five-year period, the Retirement Board approved PBI payments totaling approximately $7.78 million at its September 2019 meeting. STRS Ohio’s fiscal 2019 investment performance was verified by ACA Performance Services and was in compliance with the CFA Institute Global Investment Performance Standards (GIPS), widely considered to be the best standard for calculating and presenting investment performance.

Fiscal 2020 operating budget reflects 2.6% increase; fiscal 2019 expenses finish under budget

STRS Ohio’s adopted operating budget for fiscal 2020 totals about $104.4 million, an increase of about 2.6% over the fiscal year 2019 budget. Final figures for fiscal 2019 show that STRS Ohio operating expenditures were about $1,048,000 less than the operating budget approved for that fiscal year. STRS Ohio posts approved administrative expenses on its website following each board meeting.

STRS Ohio earns awards from Public Pension Coordinating Council

STRS Ohio received the Public Pension Standards Awards for Funding and Administration for 2018 from the Public Pension Coordinating Council (PPCC). PPCC is a confederation of the National Association of State Retirement Administrators, the National Conference on Public Employee Retirement Systems and the National Council on Teacher Retirement. The awards recognize public pension plans that meet key standards in several assessment areas, including actuarial, audit, benefit programs and communications.
For many STRS Ohio members, projecting future health care costs is a key component in determining their financial needs in retirement.

Members can review a complete list of 2020 premiums for all STRS Ohio health care plans on the STRS Ohio website at www.strsoh.org. You may also request a copy by calling the Member Services Center toll-free at 888-227-7877. Health care plan features for 2020 are also available on the website — just click on the Health Care Open Enrollment Underway heading under News for more information.

Health care valuation report shows funding remains in solid position despite no new funding

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 kept the fund on solid footing during fiscal year 2019. The fund balance increased to $3.87 billion as of June 30, 2019, up from $3.72 billion last year. Benefit payouts for the fiscal year totaled about $489 million, an average of about $1.3 million per day.

Costs for the health care program are paid from the Health Care Fund, which is currently funded through premiums charged to enrollees, government reimbursements and investment earnings on these funds. No employer contributions are used to help fund health care since these contributions are needed for the pension fund.

Under current conditions, it is estimated that if the fund earns 7.45% in all future years and all other plan experience matches assumptions, the fund is projected to remain solvent for all current members. The positive news for the Health Care Fund is tempered somewhat by two important factors:

1. There is no dedicated revenue stream for the fund, since all employer contributions are being directed to the pension fund. Without a dedicated revenue stream, the fund is more vulnerable to investment market volatility.

2. The various components that affect funding for the health care program — plan enrollment and utilization, government subsidies and rebates, investment returns — are not predictable and may not be positive for the current fiscal year or in the future.

These factors can result in greater volatility in a fund of this size with benefit payments of nearly half a billion dollars per year.

100th anniversary update — members, retirees share their stories

As STRS Ohio recognizes its 100th anniversary during fiscal year 2020, members and retirees have been sharing their stories on the STRS Ohio website. Among them ...

“The guidance from STRS as I head toward retirement has been wonderful. I feel that I have been on the right path since I began my career with the workshops, etc., STRS provided throughout my teaching career.”

A. Martin — Current Teacher, West Liberty-Salem Schools, 29½ Years

“A young lady asked, “Do you remember Jack Jones?” I thought for a moment and responded, “Yes. He was one of my first students.” She responded, “He talks about you all the time.” I asked, “Is that your father?” She answered, “No. It’s my grandfather.”

P. Sites — Retired 2000, Jackson City Schools & Wellston City Schools, 54 Years

“Students have inspired me to do whatever it takes to help a child to find success.”

C. McDonald — Retired 2012, Orange City Schools, 40 Years

“I am very happy with my pension. It has enabled me to continue the standard of living I had when teaching.”

M. Allgood — Retired 1986, Pulaski (Wilmington) School District and Taylor (New Castle) School District (both Pennsylvania); Poland Local Schools, 34

“Everything you do and say will be remembered by many of your students for the remainder of their lives. You are given the opportunity to ‘form the very lives’ of your students.”

P. Sites — Retired 2000, Jackson City Schools & Wellston City Schools, 54 Years

“STRS brought me security in my retirement.”

R. Emmitt — Retired 1974, Akron City Public Schools, 32 Years, STRS Ohio Centenarian Member

All members and retirees are invited to read more of these entries and to share their stories with us. Please visit the STRS Ohio website at www.strsoh.org/anniversary/#stories.
Executive Director Michael Nehf announced his plans to retire when his current contract ends on June 30, 2020. Nehf served as just the ninth executive director in the Retirement System’s 100-year history. He joined STRS Ohio in 2008.

“It has been an honor to serve Ohio’s public educators as executive director of the system,” Nehf said. “The Retirement Board, STRS Ohio staff and I have shared a commitment to the system’s mission — to partner with our members in helping to build retirement security. The financial markets took a downturn shortly after I joined the STRS Ohio team. With the cooperation and understanding of STRS Ohio stakeholders, we have seen steady improvements in the system’s funding levels. I hope to see this progress continue as the system embarks on its second century of service to our members.”

Under Nehf’s leadership, STRS Ohio:

• Grew assets to the current total of more than $78 billion — despite the Great Recession (when assets dropped to as low as $46 billion).
• Successfully gained support and passage of a pension reform bill that significantly improved the funding level and sustainability of the system.
• Successfully worked with the board, staff and stakeholders to improve the solvency of the retiree health care program.
• Maintained its commitment to providing exceptional service to STRS Ohio members and retirees, as the system earned the No. 1 service level in CEM Benchmarking’s Pension Administration Survey in each of the past four years.
• Earned highly positive overall impressions of active and retired members as measured by annual member surveys.

Nehf also noted that it has been a team effort to make these strides. “I would like to thank all of the board members, STRS Ohio associates and stakeholders who have worked with me over this past decade to partner in our accomplishments.”

Carol Correthers, chair of the State Teachers Retirement Board, recognized Nehf’s contributions to the Retirement System, “We have been very fortunate to have Mike’s steady hand at the helm during this time in the system’s history. He helped STRS Ohio navigate needed pension reforms and now the condition of the fund is steadily improving. His commitment to STRS Ohio’s membership has been unwavering, he’s fostered a positive culture among staff and worked effectively with Ohio’s legislators. My board colleagues and I are grateful for his leadership.”

The Retirement Board selected executive search firm Korn Ferry to assist in its search for STRS Ohio’s next executive director. Interested parties may be referred to the STRS Ohio website (www.strsoh.org) for additional details. The board plans to have a new executive director named by June 30, 2020.

Carol Correthers, Chair
Rita J. Walters, Vice Chair
Paolo DeMaria
Superintendent of Public Instruction
David Gruber
Appointed Member
Arthur Lard
Contributing Member
Yoel Mayerfeld
Appointed Member
Robert A. McFee
Contributing Member
Dale Price
Contributing Member
Jeffrey Rhodes
Contributing Member
Wade Steen
Appointed Member
Robert Stein
Retired Teacher Member
Michael J. Nehf
Executive Director