



STATE TEACHERS  
RETIREMENT SYSTEM  
OF OHIO

Feb. 21, 2014

Ms. Bethany Rhodes, Director  
Ohio Retirement Study Council  
88 East Broad St., Suite 1175  
Columbus, OH 43215-3506

275 East Broad Street  
Columbus, OH 43215-3771  
614-227-4090  
www.strsoh.org

Dear Ms. Rhodes:

Ohio Revised Code Section 3307.512 requires the State Teachers Retirement Board to establish a period of not more than 30 years to amortize the Retirement System's unfunded actuarial accrued pension liabilities. When this period exceeds 30 years, the board is required to prepare a report that includes the number of years needed to amortize the unfunded actuarial accrued liabilities along with a board-approved plan that will reduce the amortization period to no more than 30 years. This report is then submitted to the Ohio Retirement Study Council (ORSC) and the standing committees of the House of Representatives and the Senate that have primary responsibility for retirement legislation. In compliance with Section 3307.512, Revised Code, STRS Ohio respectfully submits the following report.

RETIREMENT BOARD CHAIR  
DALE PRICE

RETIREMENT BOARD VICE CHAIR  
ROBERT STEIN

EXECUTIVE DIRECTOR  
MICHAEL J. NEHF

### **July 1, 2013 actuarial valuation shows pension reform reduced STRS Ohio's accrued liabilities by \$15.7 billion**

STRS Ohio's July 1, 2013 pension valuation report is the first report completed by the Retirement Board's new actuary, The Segal Company, using the new benefit structure resulting from passage of pension reform legislation. The valuation shows the reforms significantly improved STRS Ohio's funding status. Substitute Senate Bill 342 passed with broad support from STRS Ohio constituents and saved the pension fund \$15.7 billion in accrued liabilities, according to Segal's report.

The valuation shows that STRS Ohio's funded ratio improved to 66.3% from 56%, and the amortization period was reduced to 40.2 years. Before pension reform changes were enacted, STRS Ohio had an infinite amortization period. The pension reforms affect both active members and benefit recipients and include:

- Gradually increasing the age and service requirements for retirement to 35 years of service and age 60 (for unreduced benefits);
- Calculating pensions on a fixed formula of 2.2% for all years of service;
- Increasing the period for determining final average salary to the five highest years of earnings;
- Gradually increasing member contributions to the system to 14% of salary;
- Reducing the cost-of-living adjustment (COLA) — No additional COLA paid in fiscal year 2014; COLA is deferred for five years for future retirees and all future COLAs are reduced to 2% of the original benefit (not compounded); and
- Increasing the cost to purchase most types of service credit to 100% of the liability created by the service purchase.

## **STRS Ohio is focused on reaching a 30-year amortization period for its defined benefit plan**

When the General Assembly passed pension reforms, STRS Ohio's actuary and the Ohio Retirement Study's Council's independent actuary projected that STRS Ohio's reforms would not immediately result in a 30-year amortization period. Pension Trustee Advisors noted Sub. S.B. 342 would put STRS Ohio in a "much more solid financial position than under current law." The PTA report projected that STRS Ohio would reach 100% funded status by 2041. STRS Ohio is making progress toward its goal. The July 1, 2013 pension valuation report shows STRS Ohio reduced its amortization period and has a net \$2.8 billion in unrecognized gains being deferred to future years. The \$2.8 billion reserve is due to the four-year smoothing method that spreads investment market volatility over four-year periods. These remaining gains since 2011 reflect stronger investment returns than the 7.75% assumed discount rate.

STRS Ohio is pleased to share that fiscal year 2014 also shows strong investment performance to date. We are nearly eight months into the fiscal year and STRS Ohio's total fund return is +10.5%. Our actuary projects that if these gains hold until June 30, the valuation for the current fiscal year ending June 30, 2014, will show about a four-year reduction in the amortization period as STRS Ohio recognizes part of the smoothed investment gains, and STRS Ohio's trend to 30 years is positive. The projected smoothing reserve will be \$2.1 billion on June 30, 2014. The pension system's funding progress is especially notable considering STRS Ohio made two changes in recent years to more conservative actuarial assumptions — lowering its assumed actuarial rate of return to 7.75%, and lowering its payroll growth assumption.

## **STRS Ohio is sharing potential funding improvements with stakeholder groups**

Consistent with STRS Ohio's long standing practice and direction received from the Legislature during deliberations on Sub. S.B. 342, the Retirement Board is working with its stakeholders to share with them the need for continued funding improvements. Constituent support was key in the pension reform process in 2012, and was evident as numerous stakeholder groups testified in support of the significant benefit changes. STRS Ohio will involve its stakeholders in the process of considering future plan revisions. The board is considering several options to reduce the amortization period.

One option discussed by the board at its meetings in January and February was directing all or part of the one percent of employer contributions that now help fund the STRS Ohio Health Care Program into the pension fund. Directing the full one percent employer contribution to the pension fund beginning July 1, 2014, is projected to reduce the amortization period by about four years. STRS Ohio's actuary projects this move, coupled with the smoothed gains from strong investment returns, would result in an amortization period of about 32 years. That would put STRS Ohio on track to reach a 30-year amortization period in the timeframe that was projected when pension reform legislation was passed in 2012.

## **STRS Ohio continues to strengthen health care funding status**

While providing health care coverage is not a statutory requirement for Ohio's retirement systems, STRS Ohio understands that its members and benefit recipients value having access to health care benefits. During the pension reform process, several ORSC members expressed their desire to see the retirement systems continue to offer health care coverage to their benefit recipients. STRS Ohio recently received the latest report on the improving financial picture for its Health Care Fund. The Jan. 1, 2014, valuation of the Health Care Fund showed a balance of \$3.47 billion. The life of the fund now extends to 2063, an increase of three years from the

prior year's valuation. If STRS Ohio moves the one percent of the employer contributions from the Health Care Fund to the pension fund, the Retirement Board has authority to redirect the one percent back to the Health Care Fund in the future, and to make "catch up" payments to the Health Care Fund once the financial condition of the pension fund improves.

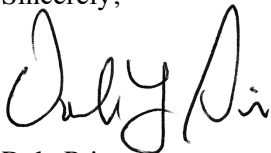
### **STRS Ohio is studying a funding policy**

STRS Ohio has just completed the first year of its phased-in implementation of the pension reforms that were highlighted earlier in this letter. STRS Ohio is pleased to see significant progress in the financial health of the pension fund, and the board and staff recognize that we must responsibly address the 30-year funding requirement. The Retirement Board is continuing its study of a funding policy with its actuary and will continue to use annual valuation reports to monitor the strength of the pension fund. STRS Ohio conducts an experience review at least every five years to compare economic and demographic trends to actuarial assumptions. During this quinquennial review, the actuary may also make further recommendations for changes to the benefit structure.

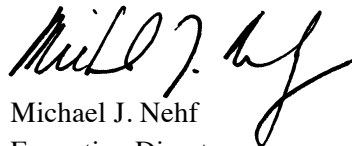
### **Board and staff remain committed to keeping STRS Ohio strong for the educators we serve**

The Ohio Legislature passed a law in 1919 to create a statewide teacher retirement system to provide retirement security for Ohio's public school teachers. Today, STRS Ohio serves more than 480,000 active, inactive and retired Ohio educators. As fiduciaries of the system, the Retirement Board will continue to protect the long-term solvency of the retirement system for the benefit of the membership and future generations of Ohio teachers. We will continue to work with our members and stakeholders and enable them to have input on the solutions we develop and implement, based on the board's authority.

Sincerely,



Dale Price  
Retirement Board Chair



Michael J. Nehf  
Executive Director