Ohio Retirement Study Council
STRS Subcommittee
30 East Broad Street, 2nd Floor
Columbus, Ohio 43215

Minutes
July 8, 2024

The meeting was called to order by Chairman Romanchuk at approximately 1:00 p.m. in Room 121, the Ohio Statehouse, Columbus, Ohio.

The following members attended the meeting:

Voting Members

Beryl Brown-Piccolantonio
Phil Plummer
Dr. Anthony Podojil
Mark Romanchuk, Chairman

Non-voting Members

Scott Helkowski, Attorney General

Absent

Staff
Jeff Bernard
Ryan Hennigan
Bethany Rhodes

With a quorum present, the meeting was called to order at 1:00 p.m.

Chairman Romanchuk noted that as this was the first meeting of the ORSC STRS Subcommittee, there were no previous minutes. He continued by stating that the Subcommittee operates under the standards of decorum of a professional setting, and no outbursts from the crowd in attendance would be tolerated. Such disruptions may result in the removal of responsible parties from the room at the Chairman's discretion.

Chairman Romanchuk moved to the ORSC Staff Presentation on the topics of intergenerational equity and cost-of-living-adjustments (COLA) in specific relation to STRS. Jeff Bernard, Senior Research Associate from the Ohio Retirement Study Council, gave the presentation, beginning with the topic of intergenerational equity.

Dr. Podojil asked when the current differential in funding between the normal cost and the employee contributions to the STRS system occurred. Mr. Bernard responded that he did not have an exact date, but that it occurred sometime during the ramp-up of employee contributions in the early part of the 2010s. Dr. Podojil asked if the challenge facing the STRS Board currently was figuring out how to fairly treat the two differing populations (active teachers and retirees) equally. Mr. Bernard responded that he agreed that that is the challenge. He continued by stating that the aim of the presentation is to frame out the actual situation we are trying to deal with.

Representative Brown-Piccolantonio asked Mr. Bernard what comprises a "generation;" are the distinctions drawn between active teachers and retirees or are there distinctions in the timeline of active teachers' careers. Mr. Bernard responded that the simplest distinction is a line dividing the active teacher population from the retirees. He added that STRS actives likely had smaller contribution rates in the early parts of their careers as compared to their current contribution rates, but for the sake of the presentation, the entirety of an active member's career timeline is being blended into a single generation.

Chairman Romanchuk summarized Mr. Bernard's remarks relative to the June 2021 ORSC Intergenerational Equity Memo, reading a statement on page 3 that the current STRS retirees did not adequately fund the base benefit they are receiving. He asked that since the memo is three-plus years old, is that still true today. Mr. Bernard replied yes, there is debt. Chairman Romanchuk asked if the current percentage difference between the normal cost and active employee contribution was lower or higher than the 3.14% mentioned in the 2021 memo. Mr. Bernard responded that his understanding is that the normal cost today is 10.89%. Chairman Romanchuk clarified that the question he was asking was what percentage of the current contributions made by the active population is going to fund the previous generation's benefit. Mr. Bernard replied that it would be the difference in 14% and 10.89%, which is 3.11%, so therefore percentages from 2021 to today are roughly the same. Chairman Romanchuk then asked if it is still true, as stated in the memo, that no other state retirement system has a negative normal cost. Mr. Bernard replied that the statement made in the 2021 memo was based off a rigorous analysis made in 2020-2021, and he did not believe that there has been one since then. He concluded by stating there continues to be no retirement system that ORSC staff are aware of that has a negative normal cost.

Chairman Romanchuk asked Director Rhodes if the 2021 memo was written internally or if it was the product of an outside consultant. Director Rhodes replied that the memo was written internally at the request of then-Chairman Carfagna, who desired some clarification on the topic of intergenerational equity. She continued by stating that then-Chairman Carfagna had ORSC staff distribute the memo and the ORSC found it very helpful. Lastly, Director Rhodes added that, to clarify, certainly in the state of Ohio, none of the other pension systems have a negative normal cost. Chairman Romanchuk asked if the memo could be updated with current numbers, and if so, how long it would take. Director Rhodes responded that ORSC staff chose not to update the memo in order to not skew anything and maintain transparency. She added that ORSC staff ran the memo past the ORSC actuary in 2021, and that ORSC could certainly update it again, it should not take that long, and that ORSC would run it past the actuary again. Chairman Romanchuk stated that he thought it would be useful to amend the memo with updated numbers or confirm that the numbers have stayed the same. Director Rhodes stated that such a project should take ORSC no time at all, and she asked the Chairman if he preferred an addendum to the current memo or if he preferred an entirely new memo. Chairman Romanchuk replied that an addendum would be fine.

Dr. Podojil asked if his understanding of the footnotes in the memo stating the normal cost in 2000 at 15.3%, then going down to 14.3% in 2010, then assuming in 2021 it was roughly 10% was a correct understanding and assumption. Mr. Bernard replied that that was correct. He added that ORSC staff have sketched the normal cost over time because it has declined as the cost to fund that benefit has declined. Dr. Podojil said it would be helpful to see the history of the amount of the normal cost and employee share over time, and he asked if he was correct in his understanding that the employee share has increased over time. Mr. Bernard replied that that information was in the ORSC History Report, and he would attach it to the addendum mentioned earlier. Dr. Podojil stated that his point in asking the question was to point out that the normal cost changed as the employee contributions increased, meaning they were putting more in as the system was spending more for people who are current pensioners. He asked if that was an accurate statement. Mr. Bernard replied that it was.

Representative Plummer asked what the dollar value of the 3.14% gap in intergenerational equity was, and how could it be filled. He stated that retirees want COLAs because their buying power is going down, and he understood that. He added that this Subcommittee needed to address this problem because certain populations are concerned with STRS investments, bonuses on these investments, and lavish buildings among other concerns. He also asked if Mr. Bernard had any suggestions on how the committee could wrap their arms around the problem better and close the normal cost gap quicker. Mr. Bernard replied that the dollar value difference in FY 2023 of the normal cost discrepancy is $375,155,300.

Chairman Romanchuk then called forward the ORSC staff presentation on COLA and STRS. Mr. Bernard continued with the COLA presentation.

When discussing claw-backs on page four of the COLA presentation, Dr. Podojil asked if he was correct in assuming that a base benefit meant the initial dollar amount of a benefit check at the time of retirement. Mr. Bernard replied that that was correct. Dr. Podojil then asked if he was correct in assuming that in Wisconsin, the claw-back provisions cannot pertain to going below the base benefit. Mr. Bernard responded that that was correct.

Mr. Bernard continued the presentation. Representative Brown-Piccolantonio asked if the two charts on pages five and six, respectively, of the COLA presentation were reflective of a single individual, or two different individuals, one retiring in 2004 and one retiring in 2014. Mr. Bernard replied that the charts reflect two separate people. He added that in the ORSC History Report, it was staff's desire to highlight the very different experiences these two groups have undergone post-retirement. Representative Brown-Piccolantonio asked if somebody had retired in 2004, and in 2013 they received a $127 benefit, then in 2017, would they still be at $127. Mr. Bernard replied that what happened to that set of retirees is that they had a one-year suspension of COLA, and then received a 2% COLA. He added that a person with a $127 benefit would have received $127, $127, $129, $131, $133 in successive years, and then in 2017, they would have gone to the 0% COLA under the suspension of COLAs through the STRS Board.

The presentation continued. Representative Plummer asked how much better the state of STRS is after pension reform from 2012. Mr. Bernard replied that the next couple slides might better answer the question, but that STRS is in a much-improved situation, though the process is ongoing.

Dr. Podojil asked if there were not major changes made to STRS prior to pension reform in 2012, such as eligibility requirement changes and enhanced benefits that were pared down. Mr. Bernard replied that in general, there were a lot of benefit enhancements around 2000, including the enhanced benefit formula that ramped-up after 30 years, and the fixed 3% COLA. In the 2012 pension reform, there were a lot of changes that were phased in. He continued by stating he did not think there were any changes of a significant nature made between 2000 and 2012. Dr. Podojil stated that he believes there were changes made within the system prior to 2012 to true-up the system.

The presentation continued. Chairman Romanchuk asked Representative Plummer if page ten of the presentation answered his earlier question about that status of STRS' performance post pension reform in 2012. Representative Plummer responded that it did.

Dr. Podojil stated that there was a phase-in reduction of benefits at STRS that began around 2012. He added that within the period of pension reform, there was more than one fix being pursued and multiple things were occurring to repair the system. Mr. Bernard replied that the ORSC staff included Senate Bill 342 from the 129th General Assembly and the 342 analysis from LSC on the Subcommittee iPads, and that there were a lot of provisions within that bill, not just changes to COLA.

Chairman Romanchuk asked how the 11-year amortization period at STRS ranks among the other Ohio pension systems. Mr. Bernard replied that it is the lowest. Chairman Romanchuk asked if lowest meant best in terms of financial health. Mr. Bernard replied that that was a tough question to answer. He added that even though the 11-year amortization rate was the lowest of the five systems, it assumes there are no further benefit enhancements going to the retired population. He concluded by saying he would not say it's the best, but it is more about understanding the position of improvement at STRS. Chairman Romanchuk asked if when talking about funding levels and amortization periods for all five systems, the assumptions used are the same. Mr. Bernard replied that for PERS, their assumption of their funding period includes the assumption of providing a COLA tied to the Consumer Price Index, so the funding periods of each system depends on the benefit assumptions of each individual system. Chairman Romanchuk asked where STRS ranked in terms of amortization and funding period back in 2012. Mr. Bernard replied that that information is in the ORSC History Report. He added that as a brief overview, the most serious concerns at the time of pension reform were with STRS, HPRS, and OP&F. Those were the three systems that had an infinite amortization at that time. Chairman Romanchuk asked if it was fair to say that STRS went from being one of the worst of the five systems in 2012 to one of the best currently. Mr. Bernard responded that he believed that would be a correct statement.

The presentation continued. When discussing pages 11 and 12 of the presentation, Dr. Podojil asked of all the changes made during the period of pension reform, what percentage of savings has gotten STRS to where they are today. Mr. Bernard responded that he would have to ask STRS for an attribution analysis, but remembering documents from 2012, the biggest mover is COLA, particularly when the system is under 100% funded. Dr. Podojil asked if COLA was a major contributor to getting STRS to where they are today. Mr. Bernard replied yes.

On behalf of the ORSC STRS Subcommittee, Chairman Romanchuk asked Director Rhodes to contact the STRS staff to ask them if and when they will know how much the "13th check" benefit will end up costing, and that they immediately notify the Subcommittee. Director Rhodes responded that she is not sure if STRS staff have any additional information other that what has been publicly announced, but that she would certainly deliver the message. Chairman Romanchuk said as soon as STRS staff know, if they and Director Rhodes could contact the Subcommittee, that would be fantastic. Director Rhodes replied that she was sure that that message was just delivered.

Representative Brown-Piccolantonio asked if the comments in the ORSC History Report were correct, that if STRS had stuck with the Sustainable Benefit Enhancement Plan (SBEP) and did not deviate as they had in 2023 and 2024, would they still be on track to be 100% funded by 2045. Mr. Bernard replied yes. He added that there was nuance in the sense that STRS has stayed on pace in terms of their amortization period, but there has been a stall in terms of their funding ratio. He continued by saying 2022 was one of the worst investment years that has been seen, but 2023 was absolutely wonderful. He concluded saying that the SBEP was tied to goals in funding policy and contained three tests that enhancements would have to pass before being granted. However, the de minimis benefit is outside the funding considerations, in fact the STRS board had to waive their funding policy to grant it, and that is what is concerning to ORSC staff. He added that each year the STRS Board grants a de minimis enhancement, which he believes is the intent, it gets harder and harder to reach the funding goal. Representative Brown-Piccolantonio asked if there was a way to quantify the deviations that STRS has made in terms of how far from the funding goal it takes them. Mr. Bernard replied that the amortization period has continued to go down, which is good, but COLAs cannot be clawed-back. He added that he would have to ask STRS staff where they would be had they not pursued these additional benefit enhancements as the staff would have that data. He continued by saying that ORSC staff is mirroring what Funston Advisors had discussed last month at the ORSC meeting in terms of analyzing the process by which STRS makes these decisions in relation to intergenerational equity.

The presentation continued. When discussing performance-based incentives (PBIs) on pages 13 and 14 of the presentation, Chairman Romanchuk asked why the conversation of PBIs and COLA always seem to be linked in the media. Mr. Bernard replied that he is a numbers-guy and not a people-person so he would not make a guess on that. Chairman Romanchuk asked if it was Mr. Bernard's testimony that PBIs and COLAs should be separated in conversation, even though they are valid issues to discuss and debate about. Mr. Bernard responded that that was absolutely his testimony. He added that ORSC staff regard COLA and PBI as two separate legitimate discussions, and it would be disingenuous to merge the two topics together.

Dr. Podojil asked if when discussing intergenerational equity, that was in terms of the base benefit, not purchasing power. Mr. Bernard replied that he would express it as where is the funding from the current generation going. He added that the rest of the presentation would address this issue.

Chairman Romanchuk asked if it was correct that STRS has the best investment returns amongst the five systems. Mr. Bernard replied that that is correct. Chairman Romanchuk asked if even the STRS returns from 2009-2023 were the best in Ohio. Mr. Bernard replied that that was correct. Chairman Romanchuk asked if the PBI for STRS investment staff was in-line with other systems across the country. Mr. Bernard replied that there have been several reports done by STRS about this topic and they would probably be more familiar with the issue that he was, but his understanding was that according to STRS' compensation advisor, the entire pay package is within the 60-80th

percentile. He added that STRS just got rid of the PBIs for investment staff, who are now getting half of what they once received in compensation. He continued by saying that if the STRS investment staff were able to reach the 90th percentile in terms of investment returns while their compensation was in the 60-80th percentile, now that the PBIs are gone, investment staff are below that compensation percentile. So, the question is now whether STRS is going to be able to retain or attract staff necessary to maintain that 90th percentile. Chairman Romanchuk asked if STRS getting rid of the PBIs puts at risk some of the investment staff that are currently employed. Mr. Bernard replied that during the STRS Board discussion on PBIs, this question was brought up by both the STRS fiduciary council and investment advisor, and they raised concerns.

The presentation continued. When the presentation concluded, Dr. Podojil stated that the differential in the normal cost and the benefit structure, as well as the suspension of COLA, has helped STRS recover from the peril they were in which necessitated pension reform. He added that both the actives and the retirees have sacrificed, and long-term purchasing power is an issue for both sides. He concluded by saying the situation is complicated and there is more work to do.

Chairman Romanchuk discussed the progress STRS has made through pension reform and that the fund itself has been managed well. He asked if since there is a present issue with intergenerational equity at STRS and that it was brought up by both ORSC staff and by Funston, is it the ORSC staff's opinion that STRS may have breached fiduciary duty. Director Rhodes replied that that is exactly ORSC staff's concern.

Chairman Romanchuk then addressed the Subcommittee to ascertain the desire of members pertaining to how they think the Subcommittee should proceed. He opened the floor for comments and direction for future meetings.

Dr. Podojil stated that he would like to know more about what the Ohio Revised Code requires in terms of diversifying investments. Director Rhodes replied that each of the five systems has a board of trustees, each with the sole authority to make prudent investment decisions. She stated that part of prudence was the diversification of assets, which are very subjective terms which ultimately would be determined by a court of law.

Representative Plummer said that with the five pension systems in Ohio there are five different processes. He continued by saying certain boards can do this and certain boards can do that; some systems are getting COLAs and certain systems are not. He suggested that the Subcommittee should explore combining some of the systems given that there are vast expenditures for the various systems. He added that he has heard chatter of some systems wanting to go to the taxpayer for more money, but the taxpayer cannot afford more money because they cannot afford their own house payments. He stated that there is obviously a communication problem between STRS and retirees, and maybe a complete overhaul is needed again as was done in pension reform. He concluded by saying that a lot of problems have been identified and hopefully the Subcommittee can address them with solutions that might include legislative action, and that he is willing to keep working with the Subcommittee to tackle these issues because they affect real people's lives. Director Rhodes replied that she, too, has heard the chatter regarding merging systems. She stated that she wanted to make the Subcommittee aware that that process is more like STRS being placed in a receivership where the system would be run by whichever system they would be "merged" into. She added that she assumed the system presumed to absorb STRS would be PERS, and if that were to happen, because it is more like a receivership, the PERS Board would run STRS until such time as they could fully and actually be merged in so as to not impair the solvency of PERS. She stated it could potentially change the base benefit structure, the COLAs, the future retiree calculations and concluded by stating this is not a small undertaking in her opinion.

Dr. Podojil said that from his past career experience, he remembers that school boards are required to file financial reports with the State if they are below funding levels. He suggested that something like these reports could be a tool for ORSC to better evaluate the pension systems. He also added that the Subcommittee could look at what other mechanisms exist in other states that give more oversight over their respective systems.

Representative Brown-Piccolantonio stated that in the fiduciary audit in 2022, there were recommendations of fixes that STRS should regularly be reporting progress on to ORSC. She asked if those reports were given to ORSC. Director Rhodes replied that the fiduciary audit did not identify anything of major scale, but rather, a lot of little fixes. She added that as STRS has made these tweaks, ORSC has been made aware of the progress. However, there has been a backslide because of Aon's termination of their contract with STRS earlier in the year. She added that some of the tweaks are easier than others to implement, but to her recollection, there has never been an audit where there were some changes identified that needed to be made and the system just completely ignored the recommendations. She continued by saying that sometimes, the recommended changes are not in the systems' control. For example, the State Treasurer has custodial accounts, and the Attorney General is the council of record, and these provisions are in statute, outside the authority of the pension boards. Representative Brown-Piccolantonio asked if the ORSC has made recommendations to the legislature regarding provisions of statute affecting pensions that need addressed but are outside the authority of the pension boards. Director Rhodes responded yes, for example there is a long-standing recommendation for the Treasurer to terminate those custodial accounts. She added that in recent years, some of the issues have worked themselves out, but some recommendations are decades long. Representative Brown-Piccolantonio asked if she was correct in her understanding that when Director Rhodes says, “decades-long recommendation,” she takes that to mean that said recommendation has not been taken up by the General Assembly and asked why. Director Rhodes replied that she has been on Capitol Square long enough to have learned that sometimes doing nothing is doing something.

Chairman Romanchuk asked Director Rhodes if there has been any notification from STRS that they are going to replace Aon for services as governance consultant. Director Rhodes replied that the STRS Board did put out a request for proposal (RFP). Chairman Romanchuk asked when STRS expects to select and on-board a governance consultant who responds to the RFP. Director Rhodes replied that she would hope it would be yet within this year.

Chairman Romanchuk addressed the Subcommittee, stating that the Chair will decide which next steps, if any, the Subcommittee will take. He also reminded members that the only authority they have is to make recommendations to the General Assembly to take action. There were no further questions.

Chairman Romanchuk then moved on to old or new business. There was no old or new business to bring before the Subcommittee.

Chairman Romanchuk stated that the next ORSC STRS Subcommittee would be at the call of the Chair.

The meeting adjourned at approximately 2:40 p.m.

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Date Approved | Mark Romanchuk, Chairman

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Bethany Rhodes, Secretary