School Employees Retirement System of Ohio
ORSC Request to Evaluate
Potential Benefit and Contribution Rate Changes
ORSC Meeting - September 9, 2009

Focus Statement

Administer a strong, stable, and secure pension fund within a 30-year funding period in order to be a defined benefit plan that adds value for our members and retirees.

Environment – SERS' Funded Status

- SERS is within the 30-year pension funding requirement.
- SERS has never exceeded the 30-year pension funding requirement since it became effective in 1997.
- FY 2008: 82% funded over a 28-year period.
- FY 2009: Our June 30, 2009 valuation will be finalized by the actuaries and accepted by the Board in mid-November, 2009.

Environment – SERS' Legislation

- Initiated S.B. 148 – 127th G.A. Pension Redesign Effective May 14, 2008 (Sen. Faber)
  - Affects new hires only.
  - Changed age and service requirements for retirement.
  - Instituted actuarially determined early retirement reduction factors.
  - Estimated to save SERS $513 million when fully phased in over a generation of new workers (20-30 years).

Environment – SERS' Demographics

Active Members

	Average Age	Annual Earnings	Years of Service Credit
SERS (2008)	47.6	$21,322	9.4
PERS (2007)*	42.0	$33,586	9.5
STRS (2008)*	44.2	$53,007	13.0

New Retirees

	Average Age	Final Average Salary	Average Monthly Benefit	Years of Service Credit
SERS (2008)	62.5	$27,815	$1,095	22.2
PERS (2007)*	59.0	$45,835	$1,926	24.4
STRS (2008)*	59.0	$66,823	$3,646	30.2

All SERS Benefit Recipients

	Average Age	Average Monthly Benefit
Service, Disability, and Survivor (64,818)	73.4	$839

*Traditional Defined Benefit and Combined plans only
Sources: *Comprehensive Annual Financial Reports* and pension system staff

Environment – SERS' Health Care Fund

- Discretionary program, not required.
- FY 2008: Health care fund solvency of 7 years.
- Projected FY 2009: Health care fund solvency, including Board-approved age and service changes described on following pages, 5 years.
- SERS collects 1.5% of employer payroll through the health care surcharge due to the lower wages of SERS members.

Board-Approved Plan

	SERS members hired before 5/14/2008	SERS new hires on or after 5/14/2008 S.B. 148 – 127th G.A. (Sen. Faber)	ORSC request	Changes Approved by SERS Board Effective for Those Retiring 8/1/2015 or Later
Retire with no reduction	Age 65 with 5 years, or Any age with 30 years	Age 65 with 10 years, or Age 55 with 30 years	Age 67 with 10 years, or Age 57 with 32 years	Age 67 with 10 years, or Age 57 with 30 years
Early retirement	Age 60 with 5 years, or Age 55 with 25 years	Age 62 with 10 years, or Age 60 with 25 years	Age 62 with 10 years, or Age 57 with 25 years	Age 62 with 10 years, or Age 60 with 25 years
Early retirement reductions	3% per year	Actuarially reduced with service guarantees	Actuarially reduced*	Actuarially reduced*

*Actuarially reduced from the lesser of age 67 or possible attainment of 30 years of service.

Board-Approved Plan

(In Billions)

	Valuation (6/30/2008)	Impact of Board Proposal on Valuation	Estimated Valuation (6/30/2009)	Impact of Board Proposal on Estimated Valuation
Accrued Liability	$13.70	$13.58	$14.90	$14.78
Assets	$11.24	$11.24	$10.28	$10.28
Unfunded Liability	$2.46	$2.34	$4.62	$4.50
Funded Status	82.0%	82.8%	69.0%	69.6%
Funding Period	28.0	28.0	30.0	30.0
Contribution Rates				
Normal Cost	14.08%	13.66%	14.08%	13.66%
Unfunded Accrued Liability	5.76%	5.50%	9.61%	9.37%
Total Pension Rate	19.84%	19.16%	23.69%	23.03%
Total Contribution Rate	24.00%	24.00%	24.00%	24.00%
Excess Contributions above Total Pension Rate	4.16%	4.84%	0.31%	0.97%
Health Care Surcharge	1.50%	1.50%	1.50%	1.50%

Rationale

- S.B. 148 set a new threshold of 10 years to vest; Board wished to retain this higher threshold going forward.
- Members should work longer and retire at an older age because they are living longer in retirement and drawing a pension for a longer period.
- Grandfathering those near retirement (5 years) is appropriate.

Rationale

- Employer contribution increase: No request at this time - Board recognized the financial stress schools are under.
- Employee contribution increase: No request at this time - Board recognized that low wages of current workers can't sustain a contribution increase.
- Formula: SERS doesn't have the 35-year recalculation feature. No changes needed.
- FAS: Already the lowest among the 5 retirement systems; reducing it by approximately 3% is disproportionately harmful.
- COLA: Current SERS retirees only average $839 per month. The simple, fixed 3% COLA is an important component of their benefit.
- The Board will continue to evaluate our funded status and explore options.

Inclusive Board Process

- SERS convened an advocacy group feedback session on August 13, 2009 and benefitted from substantial member and retiree feedback. Eight advocacy groups participated:
  - Buckeye Association of School Administrators (BASA)
  - Ohio AFSCME Retiree Chapter 1184
  - Ohio Association of Public School Employees (OAPSE)
  - Ohio Association of School Business Officials (OASBO)
  - Ohio Education Association (OEA)
  - Ohio Federation of Teachers (OFT)
  - Ohio School Boards Association (OSBA)
  - School Employee Retirees of Ohio (SERO)

Inclusive Board Process

- Board convened in special session on August 21, 2009 and rendered a unanimous decision. Board:
  - Aimed for fairness, specifically considering SERS' member and retiree demographics.
  - Understood that obtaining universal agreement on changes would be difficult.
  - Determined, in upholding their fiduciary duty, that preserving a safe and secure defined benefit pension plan for non-teaching school employees into the future required these changes.

July 10, 2009

Ms. Virginia S. Brizendine
Director of Finance
School Employees Retirement System of Ohio
300 East Broad Street, Suite 100
Columbus, OH 43215-3746

RE: Actuarial Analysis of ORSC Proposed Benefit Changes

Dear Virginia:

We have performed the requested actuarial analysis of the benefit changes proposed by ORSC and the results are summarized below for discussion purposes. Most of the proposed changes are applied to different groups of members (e.g. those retiring after July 1, 2015, new hires, everyone, etc.) and therefore have multiple results. Some of the proposed changes require modification to the actuarial assumptions while others do not. We provide a brief description of the proposed changes in the order requested, and a summary of our analysis and results.

All results are based upon the June 30, 2008 actuarial valuation of the System. When determining the impact of benefit changes applicable to future hires, we assume that the age and gender characteristics of those hired after the effective date match the characteristics of the current active membership.

1. Increase the employee contribution rate to a maximum of 12% phased in by .5% over 4-year period. This proposal applies to all active members.

	Valuation (6/30/2008)	Ultimate Cost (7/1/2014)
Member Contribution Rate	10.00%	12.00%
Employer Normal Cost Rate	4.08	2.16
Amortization Rate	5.76	5.76
Total Employer Rate	9.84%	7.92%
Difference		(1.92%)

It is important to note that as member contributions increase, there is a small increase in the liability associated with non-vested terminations due to the increase in the amount of future refunds.

2. Increase the employer contribution rate to a maximum of 16% phased in by .5% over a four year period.

The total contribution set by the Board is 24% of payroll. Of this amount, members contribute 10%. All contributions in excess of the required to support the basic benefits may be allocated to the funding of retiree health care. Currently the required employer contribution to fund the basic benefit plan is 9.84% of payroll. Since this is below 14% of payroll, the excess of 4.16% may be allocated toward retiree health care. Any additional increase in the employer contribution rate may provide additional funding of retiree health care unless the required contribution of the basic benefits increases above 14%. In this case the additional funding will be used to fund the basic benefits up to the new level of 16% in 0.50% increments over the next four years.

3. Increase the normal retirement age to 67 with at least 5 years of service, increase early retirement age to 62 with at least 5 years of service or age 55 with at least 25 years of service, with actuarially-determined reductions*; increase unreduced retirement to 32 years of service at any age.

* Actuarially reduced from the lesser of age 67 or possible attainment of 32 years of service.

We have determined the expected impact due to the proposed change based upon the following changes to the assumptions: for those not eligible for retirement by 7/1/2015, no retirements prior to eligibility for normal retirement and the rates of retirement for males and females in the first year of eligibility for unreduced retirement is assumed to increase to 40% at every age from the current age-related rates.

	Valuation (6/30/2008)	Effective for those retiring 7/1/2015 or later
Employer Normal Cost Rate	4.08%	3.83%
Amortization Rate	5.76	5.57
Total Employer Rate	9.84%	9.40%
Difference		(0.44)%

If the affected membership is limited to new hires only, the employer normal cost rate for new hires after the effective date would decrease to 3.19%, a reduction of 0.89% on the payroll of those members hired on or after 7/1/2010.

4. Increase the normal retirement age to 67 with at least 10 years of service; increase early retirement age to 62 with at least 10 years of service or age 57 with at least 25 years of service, with actuarially-determined reductions*; increase unreduced retirement to 32 years of service with minimum retirement age of 57.

   * Actuarially reduced from the lesser of age 67 or possible attainment of 32 years of service.

We have determined the expected impact due to the proposed change based upon the following changes to the assumptions: for those not eligible for retirement by 7/1/2015, no retirements prior to eligibility for normal retirement and the rates of retirement for males and females in the first year of eligibility for unreduced retirement is assumed to increase to 40% at every age from the current age-related rates.

	Valuation (6/30/2008)	Effective for those retiring 7/1/2015 or later
Employer Normal Cost Rate	4.08%	3.50%
Amortization Rate	5.76	5.36
Total Employer Rate	9.84%	8.86%
Difference		(0.98)%

If the affected membership is limited to new hires only, the employer normal cost rate for new hires after the effective date would decrease to 2.57%, a reduction of 1.51% on the payroll of those members hired on or after 7/1/2010.

5. Change benefit formula to 2.2% for the first 32 years of service, plus 2.5% for years of service in excess of 32.

	Valuation (6/30/2008)	Effective for those retiring 7/1/2015 or later
Employer Normal Cost Rate	4.08%	4.07%
Amortization Rate	5.76	5.75
Total Employer Rate	9.84%	9.82%
Difference		(0.02)%

If the affected membership is limited to new hires only, the employer normal cost rate for new hires after the effective date would decrease to 4.06%, a reduction of 0.02% on the payroll of those members hired on or after 7/1/2010.

6. Increase FAS to 5 years.

	Valuation (6/30/2008)	Effective for those retiring 7/1/2015 or later
Employer Normal Cost Rate	4.08%	3.83%
Amortization Rate	5.76	5.58
Total Employer Rate	9.84%	9.41%
Difference		(0.43)%

If the affected membership is limited to new hires only, the employer normal cost rate for new hires after the effective date would decrease to 3.54%, a reduction of 0.54% on the payroll of those members hired on or after 7/1/2010.

7. Eliminate lump sum death benefit.

The lump sum death benefit currently requires a total contribution of 0.03% of payroll. Eliminating the benefit would result in a 0.03% of payroll decrease in required contributions.

8. Eliminate COLA for future years.

	Valuation (6/30/2008)	Effective for all members, retirees included	Effective for those retiring 7/1/2015 or later*
Employer Normal Cost Rate	4.08%	1.95%	3.34%
Amortization Rate	5.76	0.77	5.56
Total Employer Rate	9.84%	2.72%	8.90%
Difference		(7.12)%	(0.94)%

*Assumes all those eligible to retire prior to 7/1/2015 will retire by 7/1/2015.

If the affected membership is limited to new hires only, the employer normal cost rate for new hires after the effective date would decrease to 1.95%, a reduction of 2.13% on the payroll of those members hired on or after 7/1/2010.

9. a. Delay 3% COLA to start after age 60;

	Valuation (6/30/2008)	Effective for all members, retirees included	Effective for those retiring 7/1/2015 or later*
Employer Normal Cost Rate	4.08%	3.81%	3.98%
Amortization Rate	5.76	5.21	5.74
Total Employer Rate	9.84%	9.02%	9.72%
Difference		(0.82)%	(0.12)%

*Assumes all those eligible to retire prior to 7/1/2015 will retire by 7/1/2015.

If the affected membership is limited to new hires only, the employer normal cost rate for new hires after the effective date would decrease to 3.81%, a reduction of 0.27% on the payroll of those members hired on or after 7/1/2010.

b. Delay 3% COLA to start after age 65;

	Valuation (6/30/2008)	Effective for all members, retirees included	Effective for those retiring 7/1/2015 or later*
Employer Normal Cost Rate	4.08%	3.46%	3.85%
Amortization Rate	5.76	4.41	5.70
Total Employer Rate	9.84%	7.87%	9.55%
Difference		(1.97)%	(0.29)%

*Assumes all those eligible to retire prior to 7/1/2015 will retire by 7/1/2015.

If the affected membership is limited to new hires only, the employer normal cost rate for new hires after the effective date would decrease to 3.46%, a reduction of 0.62% on the payroll of those members hired on or after 7/1/2010.

c. Delay 3% COLA to start after age 70;

	Valuation (6/30/2008)	Effective for all members, retirees included	Effective for those retiring 7/1/2015 or later*
Employer Normal Cost Rate	4.08%	2.86%	3.64%
Amortization Rate	5.76	3.30	5.64
Total Employer Rate	9.84%	6.16%	9.28%
Difference		(3.68)%	(0.56)%

*Assumes all those eligible to retire prior to 7/1/2015 will retire by 7/1/2015.

If the affected membership is limited to new hires only, the employer normal cost rate for new hires after the effective date would decrease to 2.86%, a reduction of 1.22% on the payroll of those members hired on or after 7/1/2010.

10. Reduce COLA to 2%, starting after 24 months of retirement.

	Valuation (6/30/2008)	Effective for all members, retirees included	Effective for those retiring 7/1/2015 or later*
Employer Normal Cost Rate	4.08%	3.04%	3.72%
Amortization Rate	5.76	3.34	5.67
Total Employer Rate	9.84%	6.38%	9.39%
Difference		(3.46)%	(0.45)%

*Assumes all those eligible to retire prior to 7/1/2015 will retire by 7/1/2015.

If the affected membership is limited to new hires only, the employer normal cost rate for new hires after the effective date would decrease to 3.04%, a reduction of 1.04% on the payroll of those members hired on or after 7/1/2010.

11. Reduce COLA to 1.5%, starting after 36 months of retirement.

	Valuation (6/30/2008)	Effective for all members, retirees included	Effective for those retiring 7/1/2015 or later*
Employer Normal Cost Rate	4.08%	2.67%	3.59%
Amortization Rate	5.76	2.46	5.63
Total Employer Rate	9.84%	5.13%	9.22%
Difference		(4.71)%	(0.62)%

*Assumes all those eligible to retire prior to 7/1/2015 will retire by 7/1/2015.

If the affected membership is limited to new hires only, the employer normal cost rate for new hires after the effective date would decrease to 2.67%, a reduction of 1.41% on the payroll of those members hired on or after 7/1/2010.

12. Require 180 days of employment to earn one year of service credit.

Currently, service is prorated for those members not working 120 days by dividing the number of days worked by 180. The proposed change would now also prorate the service earned in a year by members working more than 120 days but less than 180 days. We reviewed the data provided by the System of the number of days worked in the past 5 years by active members. We find that in any one year, 8% to 11% of the active members worked between 120 and 180 days per year. More to the point, we also find that less than 0.8% consistently worked between 120 and 180 days per year. We believe there does not exist a material trend to base an assumption that any portion of active members will work less than 180 days in a future year. Therefore, we feel the change will have a non-material impact on the long-term required funding even though there may be small recurring gains due to the proposed change to this provision.

We look forward to discussing this analysis with the Board. In the meantime, if you have any questions, please call us.

Sincerely,

Thomas J Cavanaugh

Thomas J. Cavanaugh, FSA, FCA, EA, MAAA
Chief Executive Officer

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