

STRS November 2011 Board Meeting

ORSC Chooses Pension Trustee Advisors to Review Pension Reform Plans

At its Nov. 16 meeting, the Ohio Retirement Study Council (ORSC) heard presentations from three firms vying for the opportunity to advise the Council on the pension reform plans currently in pending legislation (S.B. 3 and H.B. 69). Following the presentations and question-and-answer sessions with each firm, the ORSC unanimously selected Pension Trustee Advisors (PTA) to conduct the review.

The Council questioned whether the three senior principals proposed to lead the project would be sufficient to accomplish all of the work, but the firm addressed this concern to the satisfaction of Council members. The PTA partners said they have no ongoing long-term contracts and will be able to focus their work on the Ohio pension funds. They said they expect to be able to complete their work by July to meet the ORSC's timeline. PTA referred to prior work done with CalSTRS and the city of New York to show its experience with larger public pension funds.

Rep. Kirk Schuring (R-Canton), who chaired a subcommittee that scored the initial written proposals, underscored that the scope of the project should be manageable for the firm, noting that PTA will be "reviewing, not recreating" the work done by the pension systems.

The ORSC received six written proposals in response to an RFP issued last summer. After the subcommittee met and scored those proposals, all of the firms were invited to make a presentation to the full Council. Three firms responded to that request, PTA, Hay Group and The Segal Company.

PricewaterhouseCoopers Reviews Annual Pension Valuation

Representatives from the Retirement Board's actuarial consultant, PricewaterhouseCoopers (PwC), reviewed with the board the results of the 2011 annual actuarial valuation report. The preliminary report was presented to the Retirement Board at its October meeting by STRS Ohio staff. There were no changes to the report — the pension system's funded ratio stands at 58.8% as noted in the October issue of Board News. PwC noted that as retirement systems mature, it is common for the fund to experience negative cash flow — that is, for benefit payments to exceed contributions collected. However, PwC said that it is happening at a faster than projected rate at STRS Ohio due to an uptick in retirements (more benefits are being paid) and slower growth than expected in teacher payrolls (fewer contributions).

PwC also reviewed the Governmental Accounting Standards Board (GASB) exposure draft on pension accounting and financial reporting by employers. If adopted, the new rules will have a significant impact on how public pension funds and reporting employers show liabilities on their financial statements. If unchanged, the new rules are scheduled to take effect in 2013.

Callan Associates Updates Board on Asset Liability-Study

During the November board meeting, the Retirement Board's investment consultant, Callan Associates, updated the board on its ongoing asset-liability study that began in August. Callan is currently refining its liability model and resulting projections. The final results of the study are now expected in January.

As part of the study, Callan is providing both long- and short-term capital market projections. Callan concluded that STRS Ohio's current investment policy target will be challenged to achieve an 8% return for the next five and perhaps 10 years. However, Callan reported that based on this investment policy target and historical data, STRS Ohio could expect to generate an 8% to 8-1/2% return over the longer term 30-year horizon. Due to market volatility, the study said the path to a long-term 8% return will include extended periods of returns above the 8% and periods below the 8%.

Board Discusses Strategic Plan for Health Care

One of the Retirement Board's strategic goals is to work on options for the Health Care Stabilization Fund that support the STRS Ohio Health Care Program. The board and staff are developing a long-term strategic plan that includes specific initiatives for 2012–2015.

During the discussion at the November board meeting, staff recognized that the current health care program continually faces near-term insolvency with little prospect for additional funding. The board reviewed statistical analysis that showed:

- The Health Care Stabilization Fund is only expected to remain solvent until 2024.
- Sixty-nine percent of benefit recipients enrolled in the STRS Ohio Health Care Program are also receiving Medicare benefits, while 31% are non-Medicare.
- Subsidies for non-Medicare retirees account for 62% of all subsidies.

With this in mind, staff proposed a vision for the future that would establish the Medicare program as the cornerstone for the STRS Ohio Health Care Program, to help the largest number of retirees for the longest period of time. This plan would increase out-of-pocket expenses to reduce premium increases and merges the Medical Mutual Plus and Basic plans into one plan by 2016. The most significant changes would affect the non-Medicare program. These changes would more closely align costs with the marketplace.

The discussion also addressed the need to continue to educate members about planning for growing health care costs in retirement and how to better manage their health and health care coverage. The board is expected to continue the strategic plan discussion at its December meeting.

Retirements Approved

The Retirement Board approved 311 active members and 112 inactive members for service retirement benefits.

Other STRS Ohio News

Satisfaction Survey Responses Ranked Outstanding for First Quarter

During the first quarter of the 2011–12 fiscal year, more than 2,100 members who met with a counselor completed a satisfaction survey, with 96% responding that the service met or exceeded their expectations. Of those members who met with a counselor, 51% provided a perfect 10 score for overall service. Staff continues to be rated the highest in the areas of professionalism, courtesy and knowledge, with 67% of members providing a perfect 10 rating.

In addition, about 1,000 members who attended a Member Education program completed satisfaction surveys for the quarter, with 98% stating that the program exceeded their expectations and 47% rating the program a perfect 10. More than 76% of respondents rated the Member Education staff a perfect 10 regarding professionalism, courtesy and knowledge.

Retirement Board Election Process Begins this Month

On Nov. 10, notices were sent to all STRS Ohio reporting employers and other interested parties about the upcoming Retirement Board election for one contributing member seat. In addition, information was in the October newsletter and is posted on the STRS Ohio website. Individuals interested in running for this seat can request petitions from STRS Ohio. The deadline for returning petitions is Feb. 24, 2012.