This is the latest information from the STRS Board on changes that will affect both active and retired members. Please note that the changes to actuarial assumptions do not reduce the funding period from "infinity". Also, note that the Board has directed the Staff to study further changes, including the COLA and Medicare Part B reimbursement. The next Board meeting is March 22. If you have questions, you can submit them by going to contactus@strsoh.org.

Bill

Board Approves Changes to Actuarial Assumptions

At a special meeting on March 2, the State Teachers Retirement Board voted to approve changes to the actuarial assumptions used to calculate pension liabilities. In February, the board's actuarial consultant, PricewaterhouseCoopers (PwC), presented the results of a three-year experience review used to evaluate the economic and demographic assumptions. The experience review, conducted at the board's request, compared what actually happened during the three-year period versus what was expected to happen to the financial and demographic assumptions. Based on its review, PwC recommended adjustments to assumptions about mortality, service retirement, inflation, expected investment returns and salary growth. In total, these new assumptions have a negative overall impact on the system's funding.

The most common ways to express the system's financial condition are through the funding period and the funded ratio. The funding period is the amount of time needed to pay off the system's unfunded liability assuming current contribution rates. The funded ratio is the actuarial value of assets compared to accrued liabilities. The results of the July 1, 2011, valuation showed STRS Ohio's funding period to be "infinite," meaning at the current contribution rates, the system would not be able to pay off its unfunded liability. The funded ratio stood at 58.8%.

With the new actuarial assumptions, the system's funded ratio drops to 56.6% and the funding period remains "infinite." Below is an outline of how some of these new assumptions impact the system's funding:

- Reducing the inflation assumption from 3% to 2.75% impacts economic assumptions including expected
 investment return and individual salary increases.
- Change to mortality assumption increases liabilities this change reflects that STRS Ohio members are living longer and STRS Ohio is paying benefits for a longer period of time.
- Reducing the expected investment return from 8% to 7.75% increases liabilities assets are not expected to
 grow as fast, due primarily to lower inflation.
- Increasing the salary growth assumption increases liabilities slightly reflects that individual teacher salary growth experience was slightly higher than previously assumed.

New Actuarial Assumptions Impact Board-Approved Pension Reform Plan; Board Asks Staff to Study Additional Plan Changes

In January 2011, the Retirement Board approved changes in its plan to strengthen the financial condition of the pension fund. The changes are projected to save about \$10.9 billion in accrued liabilities and bring the pension fund to a 30-year funding period. As noted in the story above, the new actuarial assumptions approved by the board on March 2, have a negative net impact on the system's funding. That impact, coupled with a delay beyond the proposed July 1, 2012, implementation date and a request to smooth the plan's transition to new service retirement eligibility rules will cause the plan to fall outside the 30-year amortization period that has been considered a key element of the reform plan.

During its March 2 meeting, the Retirement Board discussed studying other benefit changes to reduce the amortization period. The board directed staff to study additional revisions to pension plan design and to provide implementation recommendations to the board at a future meeting. The revisions to be researched include smoothing the transition to new retirement eligibility rules for those nearing retirement and implementing a cost-of-living adjustment (COLA) cap or one-year COLA suspension.

As the board and staff prepare for an opportunity to move pension reform legislation this spring in the Ohio Senate, the board has asked staff to research mechanisms that could provide the board authority to adjust plan design in the future.

This concept was also suggested by Pension Trustee Advisors, the actuarial firm hired by the Ohio Retirement Study Council to review pension reform plans. The board authorized staff to research plan design mechanisms including age and service eligibility, employee contribution rates, benefit formula, COLA, and a required Medicare Part B partial reimbursement and to provide details to the board at a future meeting.