

OEA Retirement Systems Update

Report to the OEA Board of Directors: August 2013

Please distribute to other OEA members

SERS Announces Schedule to Fill Board Vacancy

The SERS Board will select a new retiree member to replace Mary Ann Howell who resigned from the Board earlier this year despite being elected to a new term. To fill the seat, the members of the Board will hold a vote at the October Board meeting. SERS retirees who apply for the seat may be nominated by a current member of the Board at its September meeting. Each Board member may nominate one candidate. Each candidate will be interviewed in October before the successor is chosen. The term for this seat will run from November 21, 2013 to June 30, 2015.

STRS Posts Double Digit Return, Names Chair and Vice Chair

Preliminary results indicate that STRS posted a 13.5% return on investments for the fiscal year ending June 30, 2013. The market value of assets on that date totaled \$67.9 billion. While this return is much higher than the STRS assumed rate of return (7.75%), it is expected to fall below the benchmark return. All asset classes beat their benchmark returns during the fiscal year with the exception of domestic equities.

Additionally, the STRS Board elected Bob Stein as Vice Chair of the Board. Stein is a retiree member of the Board recently re-elected to serve a second term. After one year, the Vice Chair automatically moves up to become the Chair of the Board. The current Vice Chair, Dale Price, a teacher from Toledo, will become Chair on September 1, 2013 replacing Mark Hill, a teacher from Worthington.

Mitigating Rate for STRS Alternative Retirement Plan Stirs Controversy

In February, the STRS Board approved changes to STRS Ohio's Defined Contribution (DC) and Combined Plans that included an increase in the portion of employer contributions used to offset the negative financial impact of participation in a DC plan. This amount is known as the "mitigating rate." The change took effect on July 1, 2013, and affected members enrolled in STRS Ohio's DC Plan. At the same time, an increase also went into effect for higher education faculty who are enrolled in an alternative retirement plan (ARP). These plans are similar to defined contribution plans but are administered by private vendors.

At least one lawmaker believes that STRS lacks the authority to increase the mitigating rate for the ARPs. Representative Lynn Wachtmann (R-Napoleon) believes that the Ohio Retirement Study Council (ORSC) has "exclusive authority" to make such a change. Wachtmann has stated that a recent opinion by Attorney General Mike DeWine supports his belief. Wachtmann currently serves as chair of the ORSC.

In a statement, STRS maintains that the recent increase in the ARP mitigating rate was made in accordance with Ohio law. The two paragraphs below are taken from that statement:

When creating both the Defined Contribution Plan and the ARP, the General Assembly took into account the importance of employer contributions in maintaining the solvency of the Defined Benefit Plan. Ohio law states that STRS Ohio may transfer to its employers' trust fund the portion of the Defined Contribution Plan participants' employer contribution necessary to mitigate any negative financial impact on the Defined Benefit Plan due to the participation of members in the DC Plan. The State Teachers Retirement Board may adjust the DC mitigating rate, based on an actuarial study.

Similarly, Ohio's public colleges and universities are required to contribute to STRS Ohio a percentage of ARP participants' compensation necessary to mitigate any negative financial impact of the ARP on STRS Ohio. Ohio law provides that a change in the ARP mitigating rate shall take effect on the same day a change in the Defined Contribution Plan mitigating rate takes effect. The authority granted to the Ohio Retirement Study Council to commission an actuarial study for purposes of changing the ARP mitigating rate is not a consideration when adjusting the rate. In such an instance, the ARP mitigating rate changes automatically by operation of law.

OPERS To Limit Payment Options, Gains New Board Member

Based on a rule change brought about by last year's pension legislation, OPERS has consolidated the six current plans of payment for retirees down to three plans (Single Life Plan, Joint Life Plan, Multiple Life Plan). All of the current plans will be honored for retirees who choose a plan before the implementation date of September 1, 2013. Retirees with effective dates of September 2013 or later will receive their retirement benefits by one of the new plans of payment.

Five of the current six plans will still be available, just under a new name. The exception is Plan E, life with a fixed period, which is being eliminated. Below is a summary of the new plans:

- **Single Life Plan:** A monthly annuity paid solely to the member for life. It is based on the formula benefit. If the total allowance received by the member does not equal the member's accumulated contributions, the remaining balance is paid to his or her beneficiaries.
- **Joint Life Plan:** Allows the member to choose one beneficiary and designate an amount from 10% to 100% of the monthly benefit to go to that beneficiary.
- **Multiple Life Plan:** Allows the member to designate two to four surviving beneficiaries who would receive a percentage of the monthly benefit.

In other news, Governor Kasich has appointed Frank Ciotola of Upper Arlington to serve as the Governor's investment designee on the OPERS Board. Ciotola serves as Senior Retirement Plan Consultant for Everhart Advisors and is Vice President of the Upper Arlington City Council. He replaces Lennie Wyatt, of Cincinnati, who left the OPERS Board in September 2012.