

## **OEA Retirement Systems Update** **Report to the OEA Board of Directors: February 2014**

### **Please distribute to other OEA members**

#### **STRS Board Examines Pension Funding**

On Friday, January 31, 2014, during the STRS Board's annual retreat, board members reviewed several options to reduce the retirement system's funding period. Ohio law requires the statewide retirement systems to amortize unfunded liabilities over a period of not more than 30 years. Otherwise, they must submit a board-approved plan to the legislature to reduce the funding period to 30 years. STRS Ohio's current funding period is 40.2 years.

Pension reform laws passed in 2012 reduced STRS Ohio's accrued liabilities by \$15.7 billion and improved the system's funded ratio to 66.3% from 56.0%. These reforms also reduced the retirement system's funding period from infinity — but have not yet resulted in a 30-year amortization period. The board-approved plan to reach the 30-year target is due by February 21, 2014.

During the funding discussion, the board learned that investment gains from 2011–2014 to be factored into this year's valuation should reduce the amortization period. Actuarial projections indicate that if investment gains thus far in fiscal year 2014 hold through June 30, the amortization period could be reduced by as much as four years.

Further, directing the 1% of payroll from the employer contribution that currently goes into the STRS health care fund was discussed. Such a move would reduce the pension amortization period by approximately four years. Such a move would shorten the projected life of the Health Care Fund to about 20 years; however, the board has authority to direct the 1% back to the Health Care Fund in the future, and to make "catch up" payments to the Health Care Fund once the financial condition of the pension fund improves. The Retirement Board will learn more about the strength of the Health Care Fund during the February board meeting when it is scheduled to receive the 2013 health care valuation report.

#### **Retirement System Membership for Preschool Teachers**

In January, STRS and SERS sent a joint communication to school districts and other public employers about membership determinations for a number of positions. That communication listed preschool teachers as contributing to SERS. On January 30, 2014, a follow-up communication was sent to employers to clarify membership for preschool teachers. Below is a summary of that communication.

School districts can offer regular and/or special education preschool programs. Preschool teachers in regular preschool programs are not required to have a professional educator license from the Ohio Department of Education (ODE). The determining factor for preschool teachers and retirement system membership is the ODE licensing requirement regardless of what license

an individual may hold or the school district requirements for preschool positions. Therefore, SERS membership is required for all teachers and aides in regular preschool programs.

However, a head teacher in a special education preschool program should contribute to STRS Ohio. "Head Teacher" is defined in Ohio Administrative Code 3301-37-01 as a person hired to guide and instruct a class of preschool children enrolled in the program and who may supervise the program. ODE requires head teachers in special education preschool programs to have a professional teacher license. Other teachers and aides in special education preschool programs should contribute to SERS.

As noted in the January update, those currently holding these positions who are not currently contributing to the correct retirement system will have their membership changed to meet these requirements beginning July 1, 2014. These membership changes will not be retroactive. A member's contributions and service credit to SERS or STRS will remain with that system. If a member switches systems, the contributions and service credit to the new system begins July 1, 2014. The member will retire with the system in which they have the most service credit under the formula/eligibility of that system. For example, a long-time employee who has been contributing to SERS for 25 years would retire under SERS even if they are switched to STRS going forward.

The full joint communication from SERS-STRS to employers can be viewed using the following link: <https://www.ohea.org/Document/Get/29141>