OEA Retirement Systems Update
Report to the OEA Board of Directors: October 2018

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STRS Board Receives Actuarial Valuation Reports for Pension and Health Care

On Thursday, October 18, 2018, the STRS Board received the actuarial valuation for both the pension and health care plans as of the end of the 2018 fiscal year. The report came from the Board's new actuarial firm, Cheiron. Below are a few takeaways from the reports:

- The funding position of the pension plan improved over the fiscal year. The funded ratio is 75.5% (up from 75.1%). The funding period--amount of time needed to pay off the unfunded liabilities--decreased to 17.8 years (from 18.4 years).
- The pension plan has a negative cash flow of approximately $4 billion annually. This is based on benefit payments and expenses far outpacing contributions. Investment returns are required to make up the difference and to grow assets to pay off unfunded liabilities.
- Active employees represent 26% of the actuarial liability of the pension plan.
- The health care plan is in a very strong position (currently 176% funded).

Several speakers addressed the Board on the issue of restoring the cost-of-living allowance (COLA). It should be noted that the actuarial valuation results reflect an ongoing suspension of the COLA. A plan that is 75% funded remains susceptible to market downturns.

Keeping pensions secure for the long-term has required shared sacrifice from STRS members, active and retired. Active teachers have had to work longer, contribute more and receive less in pension benefits and retired teachers have been dealing with a frozen COLA and rising health care costs. As financial conditions improve, OEA supports restoration of COLA benefits as well as a reduction in the employee contribution rate—which is currently 14% of their pay. Through our work with the Health Care and Pension Advocates for STRS, we urge the STRS Board to establish a plan with clear financial guideposts for restoring these benefits. Further, the strong funding of the health care plan means the Board should continue to find ways to stabilize member premiums and provide Medicare B subsidies.

OPERS Board Reduces Assumed Rate of Return to 7.2%

At its meeting on October 17, 2018, the OPERS Board of Trustees voted to reduce the assumed rate of investment return for the pension plan to 7.2% from 7.5%. This came after the Board's actuarial consultant, GRS Retirement Consulting, took the unusual step of recommending a lower rate of return shortly after an experience study resulted in new assumptions in 2016. At that time, OPERS lowered its assumed rate from 8.0% to 7.5%. Typically, a review of actuarial assumptions would take place every five years. However, the actuary stated that lower capital market expectations merit a lower assumed rate of return.

The Board adopted the assumed rate of 7.2% by a vote of 6-4 after four previous motions had failed. The Board's actuarial consultants had stated they could support an assumed investment return ranging from 6.5% to 7.2%. This decrease in the assumed rate of return will add billions of dollars to the actuarially assumed liabilities of the pension system, lower its funding ratio and increase the amortization period. It is unknown at this time what impact this change will have on the next actuarial valuation of the pension plan. The next valuation will be based on the end of this calendar year and conducted next spring.