Frequently Asked Questions: STRS

Many members have heard negative information about STRS lately and have asked what OEA is doing about it. Below is an FAQ covering many of the issues that have been raised about the retirement system. Use this as a resource to respond to member questions about STRS.

As you read through this document, it's important to remember a few things: your pension is safe and the financial condition of STRS is improving; the OEA Board members on the STRS Board are up to the task and working in the best interests of all members of STRS; and OEA continues to advocate for a restoration of COLA as well as a reduction in member contributions while keeping the system in a strong position to pay benefits for the long haul.

Pension Benefits and COLA

Why Is STRS Important?

The pension and health care benefits provided by STRS represent our economic security in retirement. As educators, we pay into STRS during our career to have a pension benefit in retirement that we cannot outlive. It is in everyone's best interest that STRS is financially secure and able to pay benefits to current retirees, active teachers and those just entering the profession.

What is the funding situation at STRS? Are our pensions safe?

STRS pensions are safe and the funding status of STRS is improving. However, STRS is a mature pension fund with roughly only one active employee for every current retiree. The system pays out over $7 billion in benefits each year while taking in $3 billion in contributions from employees and employers. There is an annual negative cash flow of about $4 billion. This means STRS relies heavily on investment returns to build assets and pay future benefits.

After the large investment losses of the Great Recession, STRS was projected to run out of money. This led to difficult decisions and shared sacrifice. Active teachers had their benefits reduced—contributing more, working longer, and receiving a lower pension formula. Retirees had their annual cost-of-living adjustment (COLA) reduced and then suspended altogether.

These changes and an improved economy have put STRS back on solid footing to be able to pay benefits for the long haul. As conditions continue to improve, OEA believes that the employee contribution should be lowered, and COLA benefits should be restored.

When can the COLA be restored? Should employee contributions be lowered?

According to its last actuarial valuation (7/1/20), STRS was 77% funded. That means, that for every dollar of benefits that have been earned (paid out over decades) STRS had 77 cents in assets. The unfunded liability of the system was around $20 billion.

OEA, in collaboration with the Health Care and Pension Advocates (HPA), urged the STRS Board to establish a plan with clear financial guideposts for restoring benefits. The Board adopted a policy that once the system is 85% funded, they will consider changes that do not materially impair the fiscal health of the pension plan. OEA believes that the 85% funding level is measured and appropriate.

OEA believes that as financial conditions improve, STRS needs to work to reduce employee contributions as well as restoring the COLA. Active employees currently pay 14% of their salary towards their pension benefit. This fully pays the normal cost of their benefit and helps to pay down the unfunded liability. This contribution rate is the highest of any of Ohio's pension systems and considerably higher than retired teachers paid during their career.

Over the past year, STRS has had excellent investment returns (+29%). The annual actuarial valuation in October will show how close this brings the plan to 85% funded. It must be noted, however, that fully restoring a 2% COLA is estimated to add $12 billion in liabilities. Everyone wants a COLA, but it would be unfair to have active teachers continue to pay historically high contributions to pay for COLA restoration for retirees. Further, it would be unwise to overreact to one year of performance as investment markets are volatile. A measured approach is required to avoid putting the future pension benefits of active teachers at risk.

By what authority did the STRS Board suspend the COLA? Who has the authority to restore it?

Pension reform legislation for STRS passed in 2012 made changes to pension benefits to improve the solvency of the pension system that was projected to run out of money. These changes affected active teachers with longer age and service requirements, higher contributions, and reduction in the benefit formula. The cost-of-living adjustment for retirees was reduced from 3% to 2%. However, the law also gave the STRS Board authority to further reduce or suspend the COLA if needed to safeguard the solvency of the pension plan.

The STRS Board has authority to reinstate the COLA as financial conditions allow. The Board has established a benchmark of 85% funding for restoring benefits that do not materially impair the integrity of the pension plan. The legislature could also change the law to require COLA payments or make other benefit changes.

Prior to pension reform teachers could retire with 30 years of service. Why was this changed?

Previously to the passage of pension reform legislation, a teacher with 30 years of service at any age with full benefits. This means teachers frequently would retire their early 50s. This was not sustainable. Life expectancy has increased substantially since the pension plan was founded. Demographic data shows that the life expectancy of STRS members (well educated, predominantly female) is significantly greater than the population as a whole. The normal retirement age in Social Security for those born after 1960 is 67 years old.

Changes in STRS retirement eligibility are being phased in. After August 2026, members will need to have 35 years of service and be at least age 60 to retire with full benefits (or age 65 with at least 5 years of service). Members are still able to retire with 30 years of service, but this would be considered an early retirement and subject to an actuarial reduction of benefits.

Health Care Benefits

What is the status of the STRS health care program? Can I count on health insurance coverage when I retire?

The STRS health care program, once projected to run out of money in a few years, is now on solid footing. The current level of benefits is 180% funded and projected to be sustainable indefinitely. For the past few years, health care premiums have been mostly flat, and retirees have even received a $250 premium rebate.

Active teachers can realistically expect access to STRS sponsored health care in retirement with a substantial premium subsidy. It should be noted that the cost of health care premiums for retirees before they are eligible for Medicare at age 65 (currently $411 a month for those with 30 or more years of service) are higher than teachers are used to as active employees.

Criticisms of STRS

What is the Siedle report?

Earlier this year, the Ohio Retired Teachers Association (ORTA) commissioned a third-party “forensic audit” of STRS. A report was released by Edward Siedle entitled *The High Cost of Secrecy* which was critical of STRS investment practices and operations. The report alleged that STRS is not sufficiently transparent in providing information on investment fees and suggests that changes in STRS investment strategies could save money in a way that could help contributing and retired members of the system.

What is OEA’s response to the Siedle report?

OEA urged the STRS Board to take the Siedle report seriously and fully investigate the claims. Further, OEA asked that STRS communicate openly with its findings, whether deficiencies have been found and what is being done to address them.

On Thursday, August 19, 2021, STRS staff and consultants presented to the Board a detailed response to the Siedle report. The response refuted the claims in the report. STRS notes that the report is not in fact a forensic audit as its author is neither an accountant or auditor and not bound by professional standards. Further, the report overestimates, misstates and miscalculates various fees and performance costs of the system—including double-counting fees on alternative investments. The full response can be viewed here.

OEA has confidence that the elected members of the Board will continue to closely monitor STRS investment practices. Investment returns are the primary driver of paying future pension benefits. Active and retired teachers rely on STRS to invest these assets prudently.

What is driving the criticisms of STRS operations?

While STRS has maintained high rates of overall satisfaction among retirees, a group of retirees have sought to reinstate the COLA through various means. They have gathered petition signatures, protested at Board meetings, and brought litigation. The Ohio Retired Teachers Association (ORTA) raised funds for its "forensic audit" under the premise of bringing back the COLA.

Additionally, some are using Facebook accounts to increase the public and political pressure on STRS. A group on social media routinely paints the STRS Board and staff as villains, makes baseless accusations of fraud and shuts down dissent by kicking out anyone who dares disagree. There have also been anti-union posts and calls for replacing elected representatives with more political appointed "investment experts." The last thing we need is our pensions to be subject to a takeover by politicians.

Again, OEA favors restoration of the COLA. However, there must also be a reduction in employee contributions. This should only happen when STRS has sufficiently built-up reserves to make sure that future benefits are secure. To restore a COLA without regard to the impact on the pension system could leave active teachers holding the bag.

STRS Operations and Expenses

Are STRS expenses too high?

STRS has total annual expenses of $102.7 million. This equates to about $109 dollars per member annually. A recent benchmarking report of 45 pension systems showed that STRS costs were slightly higher than the average of similar systems. However, the same report showed that STRS had the top service level of all of the participating retirement systems.

To put these expenses into perspective, in FY 2020 STRS took in approximately $3.8 billion in contributions and paid out over $7.0 billion in benefits. If STRS were to eliminate all expenses (salaries, building expenses etc.) it would pay only 1.5% of current benefits for one year—without a COLA increase. STRS expenses are in millions and a COLA increase costs billions. In short, cutting expenses is not the solution to restoring benefits.

How often is STRS audited?

STRS is audited annually by an independent public accounting firm overseen by the State Auditor. The internal audit team is independent of STRS management and performs audits of all departments. Internal audit staff has unrestricted access to all records and reports directly to the Board.

The Ohio Retirement Study Council, largely made up of state legislators, is supposed to have conducted an actuarial and fiduciary performance audit of each state retirement system on a 10-year cycle. For STRS these reviews are well behind schedule and were last completed in 2006. It should be noted that STRS is not responsible for the timetable of ORSC's work or selection of firms to conduct it—though STRS does pay the costs of audits. In August, the ORSC selected firms to begin to conduct the reviews of STRS.

What about salaries and bonuses for investment staff?

With a gap of over $3.2 billion between annual contributions and benefits paid, STRS is highly reliant on investment returns to make up the difference and pay down the unfunded liability of the system. Third parties have verified that STRS realizes substantial savings by utilizing in-house staff for investments instead of paying additional fees to Wall Street.

STRS investments are performing well. Over the period of the past one, three, five and ten-years, STRS investments have outperformed their benchmark and ranked in the top quartile of public funds. For FY 2021, investments were up over 29%. Active management of investments added $790 million during the year. By beating the benchmark, investment staff earned performance-based incentives of $6.9 million based on the policy adopted by the Board.

The salaries of STRS investment staff are high when compared to Ohio's teachers and there is "sticker shock" associated with paying bonuses. However, the data shows that they were paid for tenfold through investment performance.

The STRS Board

What is OEA's relationship with the STRS Board?

STRS is governed by an eleven-member Board of Trustees. Five members on the Board are active teachers elected by the active STRS membership. Two members of the Board are retired teachers elected by STRS benefit recipients. The remaining four members are a representative of the State Superintendent of Public Instruction and investment experts appointed by the Governor, Treasurer, and the General Assembly.

OEA has faith in the abilities of the STRS Board to act in the best interests of the members of STRS. However, OEA and STRS are distinct and separate entities. The STRS Board has a fiduciary duty to act in the best interest of all members of the STRS system—active and retired. Because of this critical role, OEA screens, endorses and campaigns on behalf of members who run for the STRS Board. OEA wants to assure that our members are represented by hard-working, knowledgeable board members. Before running for the STRS Board, OEA provides members scholarships to get advanced training on pension plans, health care and being a fiduciary. Five of the current elected Board members are members of OEA and were endorsed by OEA.

How much do Board members get compensated?

STRS Board members receive no compensation for their service on the Board. They are reimbursed for actual expenses which includes travel to Board meetings.

Why is it important to maintain a teacher majority on the STRS board?

The majority of members of the STRS Board are active and retired teachers. They are members of the system, elected by members of the system. These elected Board members are subject to the same rules and receive the same benefits as other members.

Attempts to reduce or remove the elected members from the retirement board is aimed at taking away the voice of the members of the system. Retirement systems in other states that are controlled by politicians have seen shifts away from defined benefit pension plans, chronic underfunding, or attempted raids on pension funds to pay for other priorities.