OEA Retirement Systems Update
Report to the OEA Board of Directors: December 2021

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STRS Funding Level Improves

During its October meeting, the STRS Board received the results of the actuarial valuation of the pension plan. As of the end of fiscal year 2021 (June 30), the pension plan was 80.1% funded. This is an improvement from 77.4% the previous year. Very strong investment returns during the period were largely responsible for the improved funding.

Not all of the investment gain of FY 2021 is reflected in the actuarial valuation because gains and losses are smoothed over a four-year period. Using the market value of assets, the funding ratio is 87.8%. This is significant as the STRS Board policy says that they will consider benefit improvements that do not impair the fiscal integrity of the pension at 85% funding.

It would be unwise to make permanent changes based on one year of investment returns. OEA believes that at least a short-term restoration of the cost-of-living allowance (COLA) coupled with a decrease in the employee contribution rate is merited. It has taken shared sacrifice of retirees and active employees to greatly improve the funding status. The members and beneficiaries of the system should reap those rewards.

Cheiron, the Board's actuarial firm, has noted that the pension plan is still vulnerable to adverse experience. Unfunded liabilities are greater than $20 billion and STRS pays out billions more in benefits each year than they collect through contributions. The actuary has recommended that any consideration of benefit improvements should be delayed until after the completion of the five-year experience review (expected in March 2022).

SERS Receives Actuarial Valuation Results

Cavanaugh Macdonald Consulting, SERS' actuary, presented the results of the fiscal year 2021 actuarial valuation at the SERS Board's November meeting. The funded status of the pension plan improved from 71.5% to 74.5%. In the actuarial valuation, investment gains are recognized over a four-year period. The funded ratio based on the market value of assets is 82.9%.

Strong investment returns also contributed to extended solvency for the SERS health care fund. The fund is projected to be solvent until 2058. The system's funding policy allows the Board to allocate up to 0.5% of the employer contribution toward the health care fund if the pension funded ratio is between 70-80%. However, the Board voted to dedicate the full 14% of employer contributions towards basic benefits.

STRS Board Members Pitch Questionable Investment "Partnership"

During the STRS Board's November meeting, two current Board members presented a "new business opportunity" for STRS. Wade Steen (Governor DeWine's appointee to the STRS Board) and Rudy Fichtenbaum (a retiree representative) advocated for the creation of a public/private partnership with a firm called QED. Under the proposal the company would facilitate access to STRS assets by a counter party who would execute asset swaps resulting in profits from arbitrage for the counter party.

During a lengthy discussion, it was revealed that QED currently has no assets under management and no track record of performance. Further, STRS would provide 100% of the assets in the "partnership" and receive 25% of the profits. Mr. Steen had previously indicated that he had an investment plan that would return $4 billion in revenue while reducing risk to the portfolio. Based on the discussion, in order to achieve that level of return it would be necessary to devote $65 billion in assets (two-thirds of all STRS assets) to this new enterprise. A proposed motion to hire outside council to negotiate an agreement with QED was never offered.

OPERS Board Lowers Expected Rate of Return Assumption

After hearing the results of a five-year experience study presented by their external actuary, the OPERS Board voted to reduce its assumed rate of return. The change reduced the assumed rate from 7.2% to 6.9%. This was the most impactful among several changes in economic and demographic assumptions of the pension plan.

Assumption changes added almost $2 billion in unfunded liabilities to the plan. The funded ratio was 82.9% as of the last actuarial valuation and the funded ratio would drop to 81.5% based on the changed assumptions.