PTA

William B. Fornia, FSA | President

April 10, 2017

Mr. Jeff Bernard
Senior Research Associate
Ohio Retirement Study Council

Subject: Analysis of SERS COLA legislation

Dear Jeff:

As you requested, we have reviewed the proposed legislation to Cost of Living Adjustments (COLAs) for the School Employees' Retirement System (SERS) and relevant actuarial analysis dated February 20.

While we did not replicate the calculations, we agree that the changes would improve the funding position to more than 70% and reduce costs materially.

The proposed legislation would make three actuarially significant changes:

- Future COLAs would no longer be 3%, but the lesser of the Consumer Price Index (CPI-W) and 2.5%
- COLAs will not be provided on the anniversaries in 2018, 2019, and 2020, but resume beginning on the 2021 anniversary
- Future retirees' COLAs will begin on their fourth anniversary rather than their first anniversary

Cavanaugh MacDonald, SERS actuary provided an analysis which included the following:

- Total Normal Cost would decrease by 5.8%
- Actuarial Liabilities would decrease by 6.1%
- The funded ratio would improve from 67% to 71%

We did not replicate the calculations, but made estimates using several sample calculations. We anticipate that a complete analysis by us would have found a somewhat larger decrease in costs and liabilities and a somewhat larger increase in funded ratio.

This is partially because we have been informed that Cavanaugh MacDonald is not recognizing that the CPI-W provision could result in COLAs lower than 2.5% in certain future years. We recommend that they develop a more elaborate approach at their next experience study. They are currently assuming CPI will be 3% in all years, meaning that COLAs averaging 2.5% would be provided in all years. This assumption would only be met if the Board consistently were able to provide COLAs in excess of 2.5% shortly after years where CPI-W limited the COLAs below 2.5%. This difference in actuarial approach is one of judgement and while we would have taken a slightly different approach, do not find that the difference in approaches is material in evaluating this potential legislation.

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Actuarial analysis was performed by me, a member of the American Academy of Actuaries, who meets their Qualification Standards to render the actuarial statements included in this report.

Please do not hesitate to contact us if you need additional analysis or discussion.

Sincerely,

William B. Fornia, FSA
President

Cc: Linda Bournival, KMS Actuaries