

February 24, 2020

The Honorable Jack Cera
Ohio House of Representatives
77 S. High Street
Columbus, OH 43215

Dear Representative Cera:

Following receipt of the questions you posed to the Ohio Retirement Systems at the close of the February 13, 2020 meeting of the Ohio Retirement Study Council, below are the responses from the State Teachers Retirement System of Ohio.



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1. Do pension plans utilize their actuarial valuation when planning for beneficiaries' healthcare benefits?

Yes, STRS Ohio actually uses two actuaries in conjunction with our retiree healthcare program. STRS Ohio's healthcare actuary, currently Wakely Consulting Group LLC, evaluates plan coverage and claims experience. The Board's primary actuary, currently Cheiron LLC, projects a number of factors, including number of retirements, to determine the funding status of the healthcare program. Using the data provided by both actuaries, the Retirement Board sets the subsidy level for STRS Ohio's retiree healthcare program enrollees.

STRS Ohio has not increased the premium for nearly 83% of our enrollees since January 1, 2016. The premium for approximately 90% of our enrollees has not increased since January 1, 2018. As of June 30, 2019, the health care program is funded in perpetuity.

2. Do the pension plans support the Affordable Care Act? How would beneficiaries be impacted if the ACA is overturned, as many non-Medicare retirees use the ACA marketplace?

STRS Ohio has taken no position on the ACA and has no plans to move to a model that requires non-Medicare enrollees to purchase healthcare insurance in the ACA marketplace.

Given the average amount of an STRS Ohio retiree's pension benefit, it is likely many STRS Ohio retirees would fail to qualify for a subsidy under the ACA. The average benefit of an STRS Ohio service retiree is \$46,700. Through surveys, retirees report that their STRS Ohio benefit represents 55% of their household income. This implies an average household income of \$84,900. Married couples with incomes higher than \$65,840 are not eligible for subsidies under the ACA.

3. How have hedge funds impacted the pension plans' investments?

Similar to other institutional investors, STRS Ohio maintains a diversified asset allocation to achieve the rate of return necessary to fund benefits, at an acceptable level of risk. The hedge fund program at STRS Ohio was established in 2010 following the global financial crisis to provide diversification to highly volatile public equity markets. The program was structured to generate a low correlation of returns to public equity markets, and this has been our experience. Generally, our hedge fund returns are lower than public equity returns in rising equity markets and higher in declining equity markets. As of January 31, 2020, hedge funds represent about 1.2% of STRS Ohio's total fund.

4. How do current retirees' vested benefits impact possible changes to pension benefits?

As of June 30, 2019, for the STRS Ohio defined benefit plan, 72% of the liabilities are attributable to the retirees, the remaining 28% are attributable to the active members.

5. For PERS, the proposed COLA change would decrease the unfunded liability by \$3.44 billion. What change would be needed to raise this amount of money from changing the employer and/or employee contribution? Are there any other levers that could be utilized?

6. What are the number of retirees eligible for COLAs? For PERS, how many retirees are in each group?

As of July 1, 2019, STRS Ohio had 157,481 benefit recipients with 138,485 eligible for a COLA. The remaining 18,996 will become eligible as they reach their fifth anniversary of retirement.

Representative Cera, thank you for the opportunity to share this information. We would welcome a meeting should you care to discuss any of the information provided or if you have additional questions. Please contact Marla Bump, director of governmental relations at 614-227-4012 should you wish to meet with us.

Sincerely,



Michael Nehf
Executive Director

Cc: The Honorable Kirk Schuring, Chair, Ohio Retirement Study Council
Bethany Rhodes, Director and General Counsel, Ohio Retirement Study Council