



SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

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February 28, 2020

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

Dear Representative Cera:

Below are responses from the School Employees Retirement System of Ohio to the questions you asked at the February 13, 2020 meeting of the Ohio Retirement Study Council that were subsequently submitted in writing to Chairman Schuring and shared with all of the retirement systems.

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

Yes: Actuarial data is used to assess current and projected health care participation levels; average and actual retirement ages are used to assess Pre-Medicare and Medicare enrollment; mortality information is used to project length of retirement/length of participation in the health care plan. Collectively, this information informs projected expenditures and the solvency period of health care fund.

The pension valuation is also used to determine whether a portion of the employer pension contribution may be allocated to the health care fund. Per SERS' funding policy if the pension fund at or above 70%, the SERS Board is permitted, but not required, to allocate up to 0.5% of the employer contribution to the health care fund. The potential for this additional funding informs assessment of solvency and the level of subsidization provided.

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

SERS' retiree benefit levels are lower than other systems. In FY2019 the average SERS active member annual earnings were \$21,727. Subsequently in 2019 a new SERS retiree's average monthly benefit is \$1,659, based on an average of 25.8 years of service credit. Overall for all 81,024 SERS benefit recipients (service retirees, disability recipients, and survivors) the average monthly benefit is \$1,254. Many SERS retirees qualify for and need the ACA subsidies. They also need access to plans that are affordable. Accordingly we communicate with policy makers whenever Congress or the Administration is considering making changes that will detrimentally impact access or affordability. We advocated successfully for repeal of the Cadillac tax and the HIF tax that would have been very costly for our health care fund. We also worked to create a Wraparound Plan option for our non-Medicare eligible retirees under a provision included in the ACA. Over the three years that SERS had a Wraparound option (2016-2019) the system saved more than \$11 million for our health care program. We have also facilitated outreach by our membership to their members of Congress on these key issues.

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

At its February Board Meeting, the SERS Board approved a new asset allocation structure that no longer contains an allocation to hedge funds (referred to by SERS as Multi-Asset Strategies). The allocation to Multi-Asset Strategies had been reduced over time and its role in the investment portfolio had been modified to serving as a diversifier to equity risk (i.e., to lower overall risk) similar to the role played by fixed income. The Multi-Asset Strategies investments were successful in that role, and SERS was also successful in reducing the fees on those strategies by 20% since 2012. However, the SERS Board determined that an allocation to Multi-Asset Strategies was no longer warranted due to the identification of lower cost strategies that provide a similar diversification role. The investments currently in the Multi-Asset Strategies portfolio will be liquidated over the next 6 to 12 months.

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

Approximately 62% of SERS actuarial liabilities are attributable to current retirees. Historically, those liabilities have not been the focus of efforts to strengthen the pension fund, with the exception of adjustments to the COLA. While the COLA adjustments have not been easy or undertaken lightly, they have been successful in strengthening the pension fund, and in so doing, providing the opportunity to strengthen the health care fund. Specifically, the \$1.4 billion reduction in the liabilities from the COLA adjustments has kept the pension funded status over 70%, and allowed for an additional \$20 million to be added to the health care fund. It is also true, however, that with so much of the liability attributable to current retirees there are fewer options available for strengthening the pension fund. The challenge going forward will be how to equitably allocate potential changes between active members and retirees, given that most of the changes to-date have impacted the active members.

5. For PERS, the proposed COLA change would decrease 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?

As indicated above the current three-year COLA moratorium and subsequent changes were estimated to save \$1.4 billion in unfunded liability for SERS. Although a number of other plan design changes could have an impact on the funded status and unfunded liability of the system, no individual lever or practical combination of levers would be as great as the COLA.

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

Since SERS has a COLA moratorium in place until 2021, no retirees are currently receiving a COLA. Were the Board to resume granting COLAs in 2021, members who retired more recently would need to wait until the fourth anniversary of their retirement effective date to be eligible for a COLA. Based on the numbers listed in the CAFR, approximately 79,833 retirees would be eligible for COLA in 2021, approximately 4,771 more would become eligible in 2022, and the 2,069 who retired in 2019 would be eligible in 2023.

I appreciate the opportunity to respond to your questions. If we can provide additional information and explore these issues further please don't hesitate to contact SERS Government Relations Officer, Chris Collins at 614-222-5918 to arrange a meeting with me and my staff.

Sincerely,

A handwritten signature in black ink that reads "Richard Stensrud". The signature is written in a cursive style with a large initial "R" and a long, sweeping tail.

Richard Stensrud
Executive Director

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