Ohio
Retirement
Study
Council

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To: Chairman Romanchuk
From: Jeffery A. Bernard, Senior Research Associate
Date: March 13, 2025
Subject: Additional State Teachers Retirement System (STRS) Questions

A number of questions regarding the State Teachers Retirement System (STRS) were raised at or after the STRS Subcommittee on July 8, 2024. Responses to those questions are listed below.

1) What would the FY2023 amortization period and funding ratio be if the employee contribution rate were reduced to the normal cost (11%) going forward? What would the funding ratio be if the employee rate decreased to 10% going forward?

   Response from STRS actuary: There is no change to the current funding ratio since the employee contribution rate will only change future assets. It does not impact the liability. The 2023 funding ratio is 80%. The funding period would change, as future assets would be reduced. If implemented, the 2023 funding period would increase from 11.2 years to approximately 14.5 years. After these questions were received, there was a separate question on reducing the employee rate to 10% going forward. If implemented, the 2023 funding period would increase from 11.2 years to approximately 16 years.

2) What would the FY2023 funding status be had the 3% COLA awarded in 2022 and elimination of age 60 requirement scheduled to go into effect August 1, 2026, and the 1% COLA awarded in 2023 and temporary year reduction not occurred?

   Response from STRS actuary: The Board approved a 3% COLA effective on the anniversary of a benefit recipient's retirement date for those eligible during Fiscal Year 2023 and eliminated the age 60 requirement to receive unreduced retirement that was scheduled to go into effect August 1, 2026. The result of these plan changes increased liabilities by $2.3 billion.

   The Board approved a 1% COLA effective on the anniversary of a benefit recipient's retirement date for those eligible during Fiscal Year 2024 and a plan *change to provide unreduced retirement benefits to those with 34 years of service, which extends through Fiscal Year 2028. The result of these plan changes increased liabilities by $885 million.*

A rough estimate is the 2023 funding ratio would increase from 80% to approximately 82%. And the funding period would increase from 11.2 years to approximately 9 years.

3) What were the liability reductions under pension reform and further board authority?

Year	Change in Liability ($ Bs)	Actives	Retirees
2012	-$15.7	-$8.9	-$6.8
2016	-$12.8	$0	-$12.8
2022	+$2.3	$0.9	+$1.5
2023	+$0.9	$0.4	+$0.5
Total	**-$25.3**	**-$7.6**	**-$17.6**

ORSC staff clarification: 2012 liability reduction is a reflection of pension reform. 2016 liability reduction is a reflection of 0% COLA. 2022 liability increase is a reflection of the 3% COLA and elimination of age 60 requirement that would have gone into effect in 2026. 2023 liability increase is a reflection of a 1% COLA and temporary age 34 service requirement.

4) How much in additional funds, including investment earnings, have been provided through employee contributions in excess of the normal cost?

*ORSC staff response: An estimate can be provided by multiplying the payroll for defined benefit plan participants by the difference between the normal cost and contribution rate. Actual investment earnings can then be applied to this figure. A reasonable estimate is that these contributions over the normal cost, and earning on those contributions, between 2015-2023 equals **$3,926,962,515**. A breakdown of this calculation is in the following chart.*

Investment Gains from Negative Normal Cost Contributions, 2015-2023[1]					
Fiscal Year	Rate	Payroll	Dollars	Rate of Return	Accumulated Value
2015	1.66%	9,700,174,000	161,022,888	5.2%	165,156,428
2016	3.22%	9,757,350,000	314,186,670	0.4%	480,728,048
2017	3.35%	10,122,174,000	339,092,829	14.1%	910,465,743
2018	3.09%	10,414,510,184	321,808,365	9.5%	1,333,813,917
2019	3.17%	10,704,958,962	339,347,199	6.6%	1,772,062,559
2020	3.14%	10,979,208,449	344,747,145	3.6%	2,187,142,821
2021	1.94%	11,173,250,221	216,761,054	29.0%	3,068,520,495
2022	3.14%	11,742,724,530	368,721,550	-5.4%	3,261,327,102
2023	3.07%	12,220,042,344	375,155,300	8.4%	**3,926,962,515**

5) In what year did the employee contribution rate exceed the normal cost?

ORSC staff response: FY2015.[2]

6) What is the amount that will be provided under the supplemental benefit ("13th Check") in December?

STRS staff response: This calculation will be presented at the October STRS Board meeting. Several inputs to the calculation come from the Annual Comprehensive Financial Report and the Actuarial Valuation. ORSC will have the figures as soon as they are available.

7) What would STRS' funded ratio and amortization period be in FY2023 if it permanently provided an annual COLA of 3%, reduced years of service to 30, and required employees to contribute 10% of their salary (i.e., if three major components of 2012 pension reform were removed)?

Response from STRS Actuary: This is a very approximate estimate, we would need Cheiron to run a more precise estimate. But reducing the member contribution rate from 14% to 10%, lowering years of service required for unreduced benefit to 30, and adding a permanent and annual 3% COLA all effective 7/1/24 has the following impact:

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[1] Excludes DC, ARP, and combined payroll (combined members have a different allocation of member/employer contributions). Rate of return is the dollar-weighted simplified rate of return estimated for the year in the actuarial valuation. Rate is the difference between the employee contribution rate and defined plan normal cost (excluding combined plan members), from actuarial valuations. Payroll dollars as reported in annual actuarial valuations/ACFR. Accumulated value calculation is the dollar amount multiplied by investment returns (current year contributions are the square root of that year's investment returns).

[2] Ohio Retirement Systems: 1998-2022, ORSC Staff Report on the Historical Experience of the Five Ohio Retirement Systems Since 1998, page 68 (available online at: https://www.orsc.org/Assets/Reports/1606.pdf). This figure is the blended normal cost for defined and combined participants.

Funded Ratio decreases from 80% to 65%;
Funding Period increases from 11.2 to infinite years; AND
The unfunded liability more than doubles to $44 billion.