

**State Teachers Retirement System of Ohio
Board of Directors
September, 2010 Report**

The State Teachers Retirement System of Ohio Board of Directors met on September 16 and 17, 2010.

New Board Members Begin Terms:

Two newly elected members of the STRS Board of Directors began their four-year terms in September. Dale Price, member of the Ohio Federation of Teachers, was sworn in by Francine Lawrence, President of the Toledo Federation of Teachers. Mark Hill took his oath, officiated by Mrs. Hill.. Both were elected during the spring election this year.

Executive Director's Report:

The bill containing plans for all five state pensions to correct their funding problems has not yet been returned to each pension for review. Executive Director Mike Nehf asked members to contact their state legislators during the campaign season to relay support for the STRS plan for financial solvency.

Mr. Nehf's report also included the following:

- STRS has prepared data for PricewaterhouseCoopers for its annual pension evaluation which will be presented to the Retirement Board in October.
- October benefit payments will be held for members who have not yet submitted a direct deposit form. According to the last report, 119 members had not yet returned the form.
- STRS, the School Employees Retirement System. The Ohio Public Employees Retirement System, and the Ohio State University Health Plan have all joined to approve a new contract with Express Scripts, beginning January 1, 2011. The new plan will save STRS Ohio \$110 million over the course of the three year contract.

STRS Board Reviews options on the Future of Health Care:

Greg Nichols of the Pension Benefits Department reported to the Board on the state of STRS Healthcare. A brief history of STRS healthcare reveals that the lifetime coverage has evolved from \$20,000 to \$2.5 million, and in 2011 it will be unlimited. Depending upon the future success of investment returns, which on average are not expected to go higher than an average of 8%, the Health Care Stabilization Fund is expected to be depleted at about 2021. STRS mirrors the nationwide trend in rising health care costs, now at 11% per year, the result of inflation, new therapies and drugs, and an aging society. As the gap between revenue and costs becomes wider, STRS is using more money out of the principal of the Health Care Stabilization Fund. Over time the Board has voted increased allocations totaling \$5.8 billion to the health care fund. The annual allocation is currently set at 1% of contributions, but an increase in allocation is no longer possible. Nichols concluded that funding issues will not solve themselves, there is a need

to make changes with advance notice to members so that they are prepared, and fiscal responsible action is needed now.

The Board needs to determine which of three strategies it will use to address the issue.

1. Stay the course and allow the plan to continue as is until it is depleted.
2. Make changes in benefits and contributions to offset costs and extend the solvency.
3. Redesign the plan using levers such as eligibility, premium subsidy, and benefits.

During the next months, the staff will continue to inform the Board of various options available for future health care. A vote for a plan is expected in February. Next month, a national consultant will address the Board about changes in the marketplace as affected by the National Health Care Reform Act.

Long Term Financial Contingency:

The Board scheduled a part of the meeting to discuss future financial planning for the STRS pension. There has been no action taken on the long-term plan for pension solvency submitted to the Ohio Retirement Study Council. The Board continued to review the Health and Pension Advocates (HPA) plan for the STRS pension solvency. The HPA proposal, also referred to as the "Straw Proposal" differs from the Board's plan as it calls for a five-year phase-in of the new eligibility requirements for age and service years needed to qualify for full pension benefits. In addition, the HPA plan calls for a reduction of the COLA (Cost of Living Adjustment) to 2% beginning July 1, 2011. New retirees after that date would also receive the 2% COLA, but only after a deferral for 36 months or until age 60. The HPA proposal is slightly less expensive to the fund compared to the Board plan.

Aris Hutras, Director of the Ohio Retirement Study Council (ORSC), addressed the Board to summarize ORSC's recent activities with the five state pensions. Regarding any addendum to the original plan submitted to the ORSC, Mr. Hutras hinted that changes would need to occur within the legislative process.

Investment Report:

Steve Mitchell, Deputy Director of Investments informed the Board that August returns were down slightly at -2%. At the time of the report, STRS assets were at \$59 billion. A presentation on the securities lending practices of STRS revealed that STRS restrictions on the duration of its securities as well as its conservative policies governing the type of investment instruments in use, avoided losses that other pensions and banking institutions endured with defaults on mortgage back securities.

STRS Replies to Criticism in Ohio Newspapers:

The subject of conference-related travel by individuals from Ohio's five pension systems was brought to light recently in some Ohio newspapers. Some relevant information was not part of the article. In response STRS offered the following information in the STRS monthly newsletter:

“A significant portion of the travel expenses reported by STRS Ohio for the 12-month period was a direct reflection of the responsibilities STRS Ohio investment staff have for the internal management of international investments, real estate, and the overall total investment fund which currently stands as \$58 billion. STRS Ohio manages about 80% of its total investments in-house, which is the highest level of internal management among the five Ohio systems. Further, STRS Ohio manages about 88% of its real estate investments in-house and about 59% of its international investments in-house. This **internal management saves STRS Ohio approximately \$90 - \$100 million per year.**”

The statement went on toward accountability and adherence to the established board travel policy:

“STRS Ohio has a stringent travel policy for board and staff that recognizes their collective responsibility to control expenditures. However, the board and staff also have a responsibility to maintain a level of knowledge and to conduct the due diligence that enables them to perform as successful fiduciaries of the system”.

News articles have also criticized Ohio’s five pensions for not providing data information about their members’ benefits. STRS says that Ohio law prohibits disclosure of each member’s personal history and benefit amounts. STRS has an obligation to protect the identities of each member and simply editing the names and addresses of members would not be enough to protect them.

Risk Management Procedures Enhanced.

The Board voted to enhance some risk management procedures. In the future, some reviews will be conducted quarterly. STRS risk management establishes procedures in order to avoid any conceivable loss or any type of vulnerable exposure to loss in areas of the STRS system.

The Board has set October 14th and 15th as the dates for the next meeting of the STRS Board of Directors. The Disability Review Panel will meet October 13, 2010.