

Mary Ann Quilter Cervantes
OFT Health Care and Pension Consultant

State Teachers Retirement System of Ohio
Board of Directors Meeting
November 17-18, 2011
Summary

Features:

- Executive Director's Report: Ohio Retirement Study Council Hires Actuarial Firm
- Investment Report
- Annual Actuarial Report from PricewaterhouseCoopers
- Health Care Strategy Unveiled
- STRS Board Election for 2012

Executive Director's Report: Ohio Retirement Study Council Decides on Pension Trustee Advisors:

Executive Director of STRS Mike Nehf reported that during the November meeting of the Ohio Retirement Study Council (ORSC), presentations were made by three actuary firms in contention for a position to advise ORSC on pension reform. The ORSC voted unanimously to hire Pension Trustee Advisors (PTA). The firm was able to assure ORSC that it was able to handle the amount of work, that it had no on-going or long-term contracts, and that it could complete work to meet the ORSC timeline in July. Among key firms for whom PTA has worked, it listed CalSTRS and the city of New York. The firm's job will be to advise the Council regarding pension reform legislation contained in House Bill 69 and Senate Bill, now on hold.

Investment Report:

Steve Mitchell, Deputy Director of STRS Investments reported STRS assets to be at \$62.9 billion on October 31, 2011, up \$3.5 billion from the previous month but down from the \$66 billion mark in June. As the European debt crisis and the U.S. government debt continue to plague the markets, effects are felt in STRS investment returns.

Callan Associates, the STRS investment consultant, briefed the STRS Board on its asset-liability study that began in August with results expected in January. The Callan presentation noted that the experience of past years as well as the unstable markets may present a challenge to STRS investments to achieve an 8% return on investments in the next five to ten years. On the positive side however, the combination of historical data and the new investment target could manifest returns from 8 to 8 ½ % over a longer 30 year term. As with all long-term investors, this experience will include returns below 8% as well as returns above 8%.

STRS Annual Pension Valuation by PricewaterhouseCoopers:

The STRS actuarial consultant, PricewaterhouseCoopers (PwC) took another look at the STRS annual valuation report, presented in its entirety during the October Board meeting. Mentioned in the October report are the following points in review:

- The number of retirees has increased over active teachers showing 185,860 retirees versus 138,088 active teachers.
- The funding period (the amount of time needed to pay off all members in the system) remains "infinite" in spite of the highest investment returns of 3 decades at 22.6%.
- The funding ratio dropped from 59.1% to 58.8%
- The annual payroll is \$11 billion

Sheldon Gensen of PwC admonished the Board saying that it needs more money in contributions to cover not only the unfunded liability (the amount of money needed to pay off members if the fund closed today) but also the interest on the unfunded amount. The funded ratio of the pension stands at 58.8% and therefore needs to execute reforms as outlined in its reform plan now on hold before the state legislature. It is often the case that retirement systems experience negative cash flow when benefit payments exceed contributions. That is happening faster than expected at STRS experiences higher than average retirements when fewer contributions or slower growth than expected in teacher payrolls.

Health Care Strategy:

The STRS Health Care Stabilization Fund has a life solvency until 2024 to sustain all members with health care service. As future funding options are limited, the STRS Member Benefits Department's, health care staff has researched options to prolong the life of the health care for its members.

A presentation was made to the Board during the November Board meeting in order to inform the Board on the status of health care. The following are brief notes of that presentation:

- STRS healthcare has a limited life solvency until 2024
- STRS subsidizes both Medicare and non-Medicare members.
- Non-Medicare retirees make up only 31% of the total number of enrolled retirees, yet make up 62% of the cost of subsidies
- Projected costs estimated for a retired member with 30 year of service enrolled in the Non-Medicare Basic Plan in 2012 will cost STRS \$6,518, total premiums paid by the member will be \$1,824; enrollee's total maximum exposure will be \$10,524 as co-payments, deductibles and out-of-pocket amounts are factored in.
- Costs for a retiree enrolled in the Non-Medicare Plus Plan for 2012 are estimated to be a total cost to STRS of \$12,384 with a \$3,468 premium cost to the member; total exposure to the member of \$10,168.
- By 2016, STRS estimates a 36% increase projected for costs.
- STRS's plan to eliminate the non-Medicare Basic Plan presents a single plan
- Costs of the Non-Medicare Single Plan are projected to be \$8,800 total cost to STRS; Premium costs at \$3,552; Co-pay/Deductible Out of Pocket costs at \$6,500 and Rx at \$4,700; Maximum exposure is project to be \$14,752.

STRS Goals:

- Establish the Medicare program as the cornerstone of the program.

- Reduce subsidy cost in order to extend the life of the health care program to 30 years.
- By 2025, implement a plan to extend life of health care to 65+ years.

The following was taken directly from the presentation by STRS Health Care Staff:

Strategic Goal

Plan Design Actions:

Non-Medicare Subsidy

- Decrease year of service multiplier from 2.1% to 1.7% by yearly 0.1% increments from 2016 through 2019.
- In 2016, introduce non-Medicare retiree surcharge for new retirees who enroll in health care and are under age 60.
- Once retiree enrolls in Medicare, subsidy reverts to being based solely on retiree's years of service and the years of service multiplier returns to 2.1%.

(Ed. In addition to the plan design changes, STRS intends to make some additional changes in conjunction with the second goal.)

Strategic Goal

Plan Management Actions

Potential Action 2013-2019

By 2015

- Introduce smaller retail pharmacy network.
- Activate PPO network for Aetna Medicare Plan (PPO) in Ohio (out-of-network coverage will have higher deductible and lower coinsurance percentage)
- Introduce "high performance" formulary (refers to cost effectiveness of the member's choice drug among those that have same function).
- Convert Rx co-payment tiers I and II to coinsurance percentages.

By 2019

- Introduce non-Medicare high deductible plan with HRA option to those willing to make specific commitments to wellness and healthy living
- Implement HMO option (no coverage for out-of-network except for emergencies) for Aetna Medicare Plan (PPO) in Ohio and eliminate Medicare Basic Plan.
- Explore utilization of exchanges

Election of Retirement Board Seat:

The election for one contributing or active member's seat on the STRS Board of Directors will take place in April of 2012. Any active member interested in running for this position may obtain petitions by contacting STRS Ohio. The seat is currently held by Board member, Tim Meyer. The deadline for returning the petitions is February 24, 2012.

Retirements:

The Board approved service retirement benefits for 311 active members and 112 inactive members.

The next meeting of the STRS Retirement Board will be December 8 and 9, 2011.