

Mary Ann Quilter Cervantes
OFT Health Care and Pension Consultant

State Teachers Retirement System of Ohio
Board of Directors Meeting
June 16, 2011
Summary

Features:

- Mark Hill Elected New Vice Chair, . . . Page 1
- Executive Director's Report, . . . Page 2
 - Status of Pension Contributions Changes in State Budget
 - Status of Pension Legislation
- Investment Report – New Investment Plan Approved . . . Page 2
- 2012 Health Care Premiums, . . . Pages 3-5
- Aetna Diabetes Support Program . . . Page 5
- Webcasts for Retiring Members Continue Until June 29th. . Page6
- Board Seeks Authorization Through Statute to Permit Members to Continue Installment Purchases of Service Credit at Current Cost, . . .Page 6
- Review of Proposed Changes (in House Bill 69) to Purchase of Service Credit, . . . Pages 6-7

STRS Vice Chair Elected:

Mark Hill was elected Vice Chair of the STRS Board of Directors effective September 1, 2011. Mr. Hill will serve a term of one year, then ascend to the chair position of the Board beginning September 1, 2012.

Executive Director's Report:

Mike Nehf reported to the Board that the biennial budget to date does not include a change in the employer and employee contributions to the five state pensions. However, the bill is now on the way to a conference committee to reconcile the versions of the bill between the two houses. That committee could insert language to move the 2% contribution from the employer, now at 14% to the employee who currently pays 10%. As reported last month, an additional 2% added to the employee's 10% would raise the total contribution to 12% but would reduce the employer contribution to 12%. However, the STRS Ohio pension reform plan already includes a 3% increase for employees or active teachers. Therefore, the 2% shift from the employer to the employee would bring the total to 15% for the employee contribution. This 15% rate would not be expected to win approval by members or STRS.

Members are asked to contact their legislators and members of the conference committee to express desires to keep the contribution rate at 10% and 14%. The OFT website at www.oft-aft.org can facilitate the contact.

The Ohio Retirement Study Council Subcommittee is preparing an RFP or request for proposal, to hire an actuary to analyze the five pensions and advise on reform trends in other states as well as in the private sector. In response, Mike Nehf and directors of the other four pension funds sent a letter highlighting key issues they would like the ORSC Subcommittee to consider as its members compose the RFP. The directors raise several issues directly quoted from the letter:

- As fiduciaries, the five retirement boards, dating back to 1920, are critically important at the State of Ohio's economic engine;
- As fiduciaries, the five retirement boards have spent several years and more than a million dollars developing the reforms proposed by the respective boards and pending before the General Assembly;
- The inclusion of health care review in the RFP seems misplaced and unnecessary; and
- A broad scope to include operations, investments, etc. is duplicative of studies already completed and millions of dollars already spent to comply with existing reporting of regulatory requirements at both the state and federal levels.

Investment Report:

Steve Mitchell, Director of STRS investments reported that STRS investment assets were at \$66.6 billion on May 31, 2011.

The Board approved the new investment plan for fiscal year 2012 that gives the investment director, power to move as much as 10% of investment assets (now at 5%) into cash if needed, as STRS wants to be in a position to move monies to more appropriate investments. The investment staff is concerned about global events with potential financial impact. Financial crises in the PIGS countries, Portugal, Ireland, Greece, and Spain, have threatened the global economy, but it is government debt contagion, or the growing acquisition of debt by many countries, which is the cause of this major concern. Global risks also exist due to political unrest in the Middle East and natural disasters such as those experienced by Japan. With regard to the U.S., inflation is expected to remain in check, and unemployment will remain elevated. Consumer spending will be the driver of the economy this year as the real estate market continues to lag.

Investment returns for FY 2012 appear less robust than the previous year, with better expected returns in the Alternative Investment class.

Pension Benefits – HealthCare:

The STRS Board approved the health care premiums for 2012. All health care plans are listed below with their respective premiums. Members may also view these at the STRS website at www.strsoh.org June 22, 2011. Special note: As reported in May, the PPO premiums for AultCare, Kaiser, and Paramount are considerably higher this year due to re-alignment of subsidy. Members may call STRS for information at 1-800 2277877. Also, information will be posted at the STRS website and newsletters. In late October, all enrollees will receive personalized healthcare plan information to prepare for the fall open-enrollment period which extends from November 1, until November 22, 2011.

[For complete diagrams, download the document at <http://oh.aft.org?action=downloadasset&assetid=0a644909-60ae-475c-b3da-03198475e46c>]

Aetna Medicare Plan (PPO) Implements Diabetes Support Program:

Aetna Medicare Plan implemented a diabetes support program for enrollees in June. Those with long-term indications of high glucose levels evidenced by HbA1c greater than 8 are the targets of the program. The HbA1c testing monitors the effects of diet, exercise, and drug therapy on long-term blood glucose levels in diabetic patients. Enrollees will receive daily outbound calls, feedback about their fasting and blood sugar, and case management if needed.

STRS Website for Retirement Countdown Successful:

The Retirement Countdown webcast attracted over 76 people so far. The program was offered by the Member Education staff, to assist members who had already met with a benefits counselor but need to complete final retirement paperwork. The final webcasts will be offered on Wednesdays from 4:30-5:30 p.m. through June 29. Members can register for the last webcast, at the STRS website at: www.strsoh.org. Click on the Retirement Countdown 2011 link under the "Web Presentations" heading in the left column of the home page.

Board Seeks Authorization Through Statute to Permit Members to Continue Installments to Purchase Service Credit at Current Cost:

Once House Bill 69 is enacted, in January 1, 2014, members who purchase service credit will have to pay 100% of the liability. For example, the member now pays 10% of the salary of each purchased year plus interest, but at today's rates the member would have to pay 24% (which includes 10% employee rate plus 14% employer rate) plus interest. Of course, that percentage will increase when employee contributions are increased by legislation in House Bill 69.

Once the January 1, 2014 change in purchase cost is enacted however, members who are already paying installments on their cost of purchase might be able to complete those purchases at the lower cost, provided that state legislation grants permission to the Board to authorize the lower rates on existing installments.

Review of House Bill 69 Proposed Changes to Purchase of Service Credit:

The following is a review of the proposed changes to purchase of service credit included in House Bill 69:

House Bill 69 would increase the cost of purchase service to 100% liability effective Jan. 1, 2014,

1. Purchase service affected includes:

- All private and out-of-state public teaching
- Prior military service
- Non-contributing other Ohio public service
- Pregnancy time
- School/governing board service (currently 100%)
- Waived (currently 100%)*
- Ohio National Guard*

*Would change to the new 100%

2. Proposed Effective Dates for Changes to Cost Calculations:

- Now until Dec. 31, 2013 – no change in cost calculations for anyone
- Jan. 1, 2014 – new cost calculations begin
- Proposed Exception: Members who certify service (complete and submit certification forms to STRS Ohio) on or before Dec. 31, 2013, will have until June 30, 2014, to purchase the service at the current, lower cost calculations.

3. Pre-tax installment purchase limitations:

- Members with pre-tax installment purchase are locked-in to payment plans
- IRS views the plan as a salary reduction pick-up plan with member's employer
- IRS permits plan termination only upon death, disability, or termination of employment.

4. Pre-tax installment purchases continuing July 1, 2014 and later—impact to members:

- Payment Plan period cannot change
- Current payment amount cannot change
- Monthly payment amount buys less
- Lower payments may not buy required minimum service.

5. Recommendations for active installment plans extending beyond July 1, 2014.

- Permit members to complete installment purchase plans at the current cost calculations if they have active installment plans with their employers when the bill becomes effective.
- Allow member one-time option to pay off balance at the lower cost calculation if member stops teaching, changes employer, or retires.

STRS Fiscal Year 2012 Budget Approved:

The annual budget was adopted for fiscal year 2012 which runs from July 1, 2011 until June 30, 2012. The budget totals \$89,732,800, a slight decrease from this year's amount of \$82,773,600. The capital budget for 2012 totals \$2,277,100.

The STRS Board will not meet in July, but is scheduled to meet August 11th and 12th.

Additional Resources

[STRS report June 2011](#)