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State Teachers Retirement System of Ohio
Board of Directors Meeting
August 10-11, 2011
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Executive Director's Report:

STRS Director Mike Nehf's report to the Board included events from July and August. There was no STRS Board meeting in July.

The state budget of Ohio was passed in late June, but did not include the 2% shift of contributions to the state pensions from the employers to the employees. The provision, originally part of Governor Kasich's proposed budget, was removed by the House Finance Committee after statements from officials of STRS Ohio and Ohio PERS brought concerns that the shift would have a negative impact on the funding of state pensions. Yet, pension representatives have been informed that the 2% shift has a good chance of reappearing in the pension reform bills currently known as House Bill 69 and Senate Bill 3. Both bills are currently being held in committee.

Meanwhile, the Ohio Retirement Study Council, ORSC, has continued its study on reform of the five pensions, and has decided to hire an independent actuary to advise council members with recommendations on each of the five pension reform plans.

Mr. Nehf shared that the Ohio Retirement Study Council, ORSC, had met the previous day to continue discussion on the Request for Proposal to hire the actuarial consultant to the ORSC.

During that meeting, Chairman Faber and Rep. Kirk Schuring stressed that there is no intention to reevaluate studies already completed by the systems, and both stated the goal to complete the pension reform before the biennium ends in 2012. State pensions however, were counting on faster action in order to pass the pension reform legislation. Delays on the pension bill could impact the solvency of each pension, by leaving them without timely changes in the contributions, the years of service, and the COLA reductions.

Chairman Faber reminded the audience that he intends to schedule afternoon and evening meetings around the state to hear opinions from others about the pending state pension reform legislation. He said that a schedule would be planned and shared at a later date. STRS will share those details on its website.

Mr. Nehf reported an increase in retirements this year. The Board approved 2,518 active members, and 229 inactive members for retirement benefits. The pension benefits department worked hard to process retirement applications so that members could receive benefit checks on time. By the end of July, an additional 949 applications for June, July, and August were received compared to the same time last year.

Investment Report:

Steve Mitchell Director of Investments reported that STRS Ohio's investment assets experienced a 22.6% return for fiscal year ending June 30, 2011. Mr. Mitchell shared that this was the best return since 1983. On June 30th, STRS assets at \$66.2 billion showed a gain of \$9.3 billion for the fiscal year. In addition, all asset classes beat their benchmarks and four asset classes (domestic equities –33.2%, international equities –24.16%, real estate – 22.66%, and alternative investments – 20.43%) experienced returns over 20% for the year. STRS investments returns have beat their benchmark in eight of the past ten years. Mr. Mitchell also noted that instead of using only index funds, the active management of STRS investment funds added about \$122 million to the fund. The Board was warned that investments are not expected to enjoy such positive returns next year, and may return below 8%.

Investment Asset Liability Study:

Callan Associates began the asset-liability study of STRS investments during the August Board meeting. The study is in order with STRS Board Policy and considered a cornerstone for trustees using a prudent long-term strategic plan on asset allocation.

According to the Callan Associates presentation, an asset allocation study is conducted:

- To acknowledge change and certainty in the capital markets
- To establish reasonable return and risk expectations
- Incorporate changes to the pension plan – benefits, demographics, of participant population
- To reflect expected contribution policy in coming years
- To project and evaluate impact on assets, liabilities, cash flows, and funded status
- To confirm an investment policy to meet return and risk objectives in relation to funding, accounting and policy goals.

The basic question, where do we invest STRS money to receive the best return? The answer presents perhaps over 30 different choices with unlimited mixes. The asset allocation study will examine all of these and fit according to STRS needs and risk desire.

Laura Ecklar Retires as Communications Services Director:

Laura Ecklar said goodbye to a dedicated, high-profile career in June as she elected retirement from STRS. During her years as Communications Services Director, Laura guided the public face of STRS through difficult years as the pension system weathered investment losses, political attacks, and reform movements. The STRS public statements, monthly newsletters, and presentation materials were a part of her many duties. The official STRS spokesperson consistently greeted members with a smile, and was always eager to help those who needed her. The Ohio Federation of Teachers wishes her well in her future plans, and extends heartfelt thanks for her excellent work.

Nick Treneff Newly Appointed Communications Services Director:

Nick Treneff has been named Communication Services Director of STRS Ohio. He fills the position of Laura Ecklar who retired in June. A graduate of The Ohio State University with a B.A. Degree in Journalism, Mr. Treneff has been a member of the STRS team for the past 13 years and has worked very closely with Laura Ecklar in recent years. He also worked with the Pension Benefits Department and Investment Department. His administrative experience has provided good training on key issues that the system faces today, including pension reform legislation, preservation of the Health Care Stabilization Fund and strategic planning. Mr. Treneff said, "I have many family members who are educators, and I'm glad to be to be serving the STRS Ohio membership. I was very fortunate to work with Laura Ecklar, and to learn from her for more than a decade." The Ohio Federation of Teachers congratulates Nick Treneff on his promotion, and looks forward to working with him.

Express Scripts Information:

Express Scripts enrollees should be receiving an update mailing soon. As seen in the STRS August Board News, "e-Update", Express Scripts, the STRS drug administrator is mailing a Renewal Communication Packet to all STRS enrollees who are on Medicare. The mailing is scheduled prior to the mailing of the I.D. cards and members are asked to keep their membership cards until the later mailing of new cards.

The packet informs enrollees that the 2012 prescription drug coverage will include 2 parts:

- A primary Medicare Part D Prescription Drug Plan
- A secondary supplemental plan for the Coverage Gap Stage only

Co-payments will be the same in the Coverage Gap Stage.

Special mailing and the STRS website will alert enrollees of the future mailing from Express Scripts.

Director of NASRA Research Speaks to Board:

Keith Brainard, the research director of the National Association of State Retirement Administrators, spoke to the Board on current trends in state retirement plans. Mr. Brainard's passionate and direct presentation included the following:

- Our nation faces a retirement crisis.
- The divide in retirement benefits between the private and public sector has never been greater, and determining retirement benefits for public employees based on those provided in the private sector is threatens a race to the bottom.
- Public pensions are changing in that benefits are being reduced, employees are paying more.
- Since 2009, over three fourths of all states have made changes to benefit levels, financing structures, or both.
- Some states have either eliminated or reduced COLA's
- Many changes include higher retirement age, increase in years of service, higher employee contributions, longer vesting periods.
- STRS Ohio proposed retirement eligibility and benefits, and assumption return of 8% are consistent with peer plans in the U.S.

Report on Business Continuity for Information Technology Services:

Greg Taylor IT Director for STRS presented a detailed report to the Board on business continuity. In the event of a disaster, STRS has a procedure in place to deal with recovery strategy in support of IT systems, and the provision of benefits and services to members. In the event of a disaster that would incapacitate the West Broad Street building, operations would move to another location north of Columbus at Brooksedge, Ohio. Employees have received training on emergency procedures to respond to a variety of situations. Meanwhile, the continuity plan remains in constant review in order to perfect the plan and to strategize more effectively.

Report on Enterprise Risk Management of Information Technology Services (ITS)

Bob Slater, Executive Deputy Director of Finance, reported on measures taken to manage risk within STRS. Basically, risk can develop from any facet of the STRS organization including IT-related risks, and therefore needs to be managed. In particular, data loss or disclosure, internal attack, incomplete documentation, and access to third party web applications are of major concern to the security of STRS. Accordingly, procedures and strategies are then continually developed, re-tested, re-evaluated, and re-formulated.

GASB Project:

The STRS Finance Department will be working with GASB, the Governmental Accounting Standards Board on financial reporting and auditing standards. STRS has volunteered to participate in field-testing of proposed financial reporting and accounting standards. STRS will work to develop pro-forma statements. This will involve weekly conference calls, and GASB will be apprised of the time and money spent on the project.

STRS Audit:

In accordance with STRS Policy, Clifton Gunderson LLP, the STRS external auditor has begun the audit of all STRS financial statements for the fiscal year ending June 30, 2011. The firm will also meet with all principal parties. Critical areas to a conventional audit includes investments and investment income, contributions and participant data testing, benefit payments, actuarial assumptions, information technology. The final audit report will be shared in December, 2011.

STRS Board Meeting, August 11, 2011

New Business:

The State Teachers Retirement System of Ohio owns a building in Cincinnati, Ohio. The building locally is known as Atrium II, 221 East 4th St. Recently, STRS requested bids for janitorial services in that area. The requests were sent out at the same time to both union and non-union contractors, including the current service provider, a member of the Service Employees International Union, S.E.I.U. In response, the S.E.I.U. questioned the STRS selection process, indicating non-union service contractors would receive preferential treatment. SEIU then sent a letter with their complaint to Ohio Federation of Teachers president Sue Taylor, who then forwarded the letter to Board members. (See letter below.)

In response to inquiries, Board member Dale Price asked Mr. Nehf to explain the policy on contractor selection to the Board, and Board member Mark Hill also stated his concerns about the process. Mr. Nehf shared the following:

- The contract selection has not yet been finalized.
- Union workers usually do the work requested in the bid but union work is not required.
- The policy uses a fair and open process.

Mr. Nehf then shared the following STRS Board Policy with the Board:

The State Teachers Retirement Board System of Ohio
Policy on Contractor Selection for Real Estate Investments

The Board of the State Teachers Retirement System of Ohio has adopted the following policy on contractor selection for real estate investments.

1. Subject always to the fiduciary duties of prudence, diligence, and pursuit of competitive returns, contract service providers hires by the System or person and firms hired to manage real estate assets owned by the System shall carefully consider and evaluate the bids and proposals for the provision of services, construction and products to be provided for such assets through the application of efforts by adequately trained, experienced and motivated workers; and
2. Contract service providers shall be selected on an open and fair competitive basis; and
3. Contract service providers must operate in a commercially responsible manner, complying with applicable federal, state, and local laws, regulations and ordinances, including those related to employment practices, working conditions, compensations and benefits, and fair labor standards; and
4. The System supports the development of a healthy and profitable business environment through the responsible management of funds, properties and workers in a safe, fair and fiscally sound manner.

After review of the policy, Board members also heard from Steve Mitchell, Director of Investments, who provided background information about the real estate investment, property management. Board members then questioned both men for additional information. The general conclusion of the Board was that the policy was clear, open, and fair, and that there were no revisions forthcoming to the policy, which dates to 1997.

STRS September Meeting:

The next meeting of the State Teachers Retirement Board of Directors will be September 15 and 16, 2011