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State Teachers Retirement System of Ohio
Board of Directors Meeting
September 15, 2011
Summary

Report Features:

- Legislation on State Pension Reform on Hold
- Actuaries Make Offers to ORSC
- Retirement Applications Expected to Total Over 6,500
- House Bill 214 Introduced Affecting Pensions of Convicted Felons
- GASB Exposure Draft
- Express Scripts and Medco Health Solutions Sign Merger Agreement
- Annual Statements to Active Teachers Expected
- Investment Report

Executive Director Reports Reform Legislation On-Hold:

STRS Executive Director Mike Nehf informed the Board that the pension reform legislation remains on hold until after the 2011 election. Meanwhile, the Ohio Retirement Study Council, ORSC, continues in its search for a hired actuary to advise the council on proposed reforms submitted by the five pensions. ORSC, the legislative oversight group for the pensions received offers from six actuarial firms including: Bolton Partners, The Segal Co., Deloitte, Hay Group, Milliman, Pension Trustee Advisors.

ORSC cancelled its September meeting and therefore there is no further information since the six firms were announced. As reported last month, the ORSC plans to schedule afternoon and evening meetings around the state to hear opinions from others about the pending state pension reform legislation. Although it was announced that a schedule would be planned and shared at a later date, there is now doubt as to whether those meetings will occur. STRS will share any further information about the meetings on its website.

Editorial note: It is feared that the ORSC will fail to act at all during the current biennium, thus delaying needed action that pensions desperately need. Legislation must be passed in a timely manner in order to enable prompt execution of new policies.

Retirement Applications Set Record:

According to the Executive Director Mike Nehf's September report, the number for retirement this year is expected to total more than 6,500 compared to 5,400 last year and 4,100 the year before. The D&S Reports or Deposit and Service Reports for members who are retiring confirm final earnings and service credit. They also update member accounts and calculate final average salaries. This year there was a record number of D&S Reports submitted by employers regarding summer retirees. The Finance department promptly processed 87% of this year's expected reports and the staff paid regular benefit payments (not partials) to 75.46% of summer retirees by August 31. The majority of retirement applications tend to occur during this time period due to the completion of service credit by teachers generally at the end of the school year. As members of the baby-boom generation continue to reach retirement age, we can expect high numbers of retiring members.

Senate Bill 214 Introduced for Convicted Felons with State Pensions:

Sen. Dave Burke introduced Senate Bill 214 that would determine when a public retirement system, alternative retirement plan, or deferred compensation program must comply with a withholding order for restitution issued on conviction of a public employee for offenses committed in the course of public employment. The bill was introduced after a public employee in a school district was convicted of stealing money from that school district.

GASB Exposure Draft:

The Governmental Accounting and Standards Board issued two exposure drafts about pension accounting and financial reporting. The drafts refer to fundamental changes to standards of accounting for state and local governments. Included are public schools, colleges and universities. These entities have been informed by STRS of how new rules and standards will affect them and have also been informed of how to submit written comments to GASB.

Express Scripts and Medco Sign Merger Agreement:

The STRS pharmaceutical manager Express Scripts has signed a merger agreement with Medco Health Solutions. Under the terms of the agreement, ESI management is sustained and will be the executive driving force. The action is expected to close during the first half of 2012, but concerns over possible monopoly, and scrutiny by regulatory review will determine whether the merger will be approved.

Annual Statements to be Mailed in September:

The Annual Statements for STRS active members have been tested for calculation and accuracy and will be mailed in late September. These statements however will not include the usual projections based on age and years of service and age as there are expected changes in the pension. The statements will include benefit estimates on withdrawal value along with disability and survivor benefits.

Investment Report:

Deputy Director of Investments Steve Mitchell announced that investment assets on August 31st were at \$62.5 billion but fell due to market activity throughout early September. The day of this report, assets were at \$61 billion, a lower amount, yet not the loss that could have affected STRS had the investment staff not moved \$2.1 billion into cash in June. That move positioned STRS to avoid losses and then purchase lower priced stock after prices fell in August. The anticipation of that event enabled STRS staff to protect investment assets.

STRS investments will be the subject of the asset liability study by the retirement board's investment consultant, Callan Associates. The question of where staff invests STRS money to receive the best return is answered through a careful process. The focus of the study will include a search of over 30 different investment choices to produce an efficient mix within the appropriate level of risk for STRS.

The annual CEM Report or cost effective management analysis of STRS investments showed that STRS saved \$94 million by managing about 80% of its total assets with its in-house investment staff. The analysis compared STRS cost and return experience to a custom peer group of pension systems. The report concluded that the STRS total return figure of 4.4% was ahead of its policy return of 4.2%

The next meeting of the STRS Board of Directors is scheduled for October 20th and 21st, 2011.