

OEA Retirement Systems Update
Report to the OEA Board of Directors: May 2021

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SERS Changes Actuarial Assumptions, Lowers Assumed Rate of Return

On the advice of its actuarial consulting firm, the SERS Board voted to change the actuarial assumptions for the SERS pension and health care plan during its April meeting. Changes were made to the economic and demographic of the plans. The actuaries recommended lowering the inflation assumption from 3.00% to 2.40%. This change was the primary driver of the recommendation to lower the assumed rate of return from 7.50% to 7.00%. The lower assumed rate added nearly \$185 million to SERS unfunded liabilities.

Other changes to the economic assumptions included a decrease in the payroll growth assumption from 3.50% to 1.75% and a reduction of the assumed increase in the cost-of-living adjustment (COLA) from 2.5% to 2.0%. Changes to demographic assumptions (retirement and withdrawal rates, mortality, etc.) were also made based on SERS plan experience. The SERS Board voted unanimously to adopt all of the actuary's recommended changes.

Despite the drop in the assumed rate of return for the pension plan, the funding status of the system was projected to drop only slightly to 70.87% funded with a period of 26 years to pay off the unfunded liabilities. The Board also voted to raise the assumed rate of return for the health care plan to 7.00% from 5.25%. This contributed to a projected increase in the funding status of the health care fund to just over 38% funded.

STRS Reviews Proposed Changes for Health Care Plan

At the April STRS Board meeting, staff presented several proposed changes to the STRS health care plan for calendar year 2022. The proposed changes are designed to have a positive impact on premiums to offset expected rate increases.

The proposed changes include: decreasing maximum out-of-pocket limits on prescriptions to \$5,100 from \$6,500 for the Medicare plans; fully funding hospital coverage for Medicare enrollees with Part B-only; changes to formularies to provide greater rebates; and reducing the copay for some specialty drugs.

The STRS Board is expected to vote on these proposed changes at its May meeting. Staff will also provide an initial look at 2022 health care premiums at that time.