

OEA Retirement Systems Update
Report to the OEA Board of Directors: February 2024

Please distribute to other OEA members

STRS Board Maintains Current Economic Assumptions

During its February meeting, the STRS Board elected to maintain the current economic assumptions for the upcoming actuarial valuation. The Board's actuarial advisor, Cheiron, recommended maintaining the assumptions of a 7.0% discount rate, 2.5% for inflation, and 3.0% for payroll growth.

The discount rate is similar to an expected rate of return. This is a key assumption because it helps to project the cost of future liabilities and the rate at which they can be paid off. There was discussion among the Board of increasing the discount rate to 7.25%. This change would have reduced the unfunded liabilities of the system by approximately \$2.5 billion. However, the actuarial consultant reported that the majority of public pension plans have a 7.0% assumption, that the trend is lowering investment assumptions, and that only one plan in the last 10 years had raised their assumption. Further, the Board's investment consultant has a 10-year projected rate of return of 7.04% and other investment projections are trending down amid economic uncertainty.

These economic assumptions will be used, not only for the actuarial valuation at the end of the fiscal year, but also in a March Board discussion about possible benefit changes. State law allows the Board to make certain plan changes if the Board's actuary determines such changes do not "materially impair the fiscal integrity" of the system. Last year, Cheiron developed a method of providing the Board with a benefit enhancement budget. At that time the budget was \$0. However, in that instance, the actuary determined that a *de minimus* change could be made. This resulted in the Board electing a 1% cost-of living adjustment (COLA) and a five-year period of retirement eligibility with 34 years of service.

SERS Board Discusses Definition of Compensation

The SERS Board is discussing potential changes to the pension contribution compensation definition. The current definition was originally adopted in the 1980s and has been largely unchanged. However, compensation practices used by employers have changed with more bonuses and lump sum payments being used—not just standard salaries and wages. Some of these payments are subject to pension contributions, others are not, and it can be unclear which is the case.

This matters because what types of pay meet the definition of compensation for SERS determines how much funding goes towards members' pension benefits and ultimately determines how much they receive in retirement. The Board's expressed goals for the discussion are to identify which payments should be pensionable, clarify the rules so they are easier to understand and administer, and to understand how decisions might impact the pension plan, employers, and members of SERS.

On Thursday, February 15, the SERS held a special meeting to discuss the issue with stakeholder groups. OEA, other labor unions, and employer groups were represented. There was consensus among the labor groups that the current definitions are murky and that as bonuses and lump sum payments become more prevalent, it would have real and lasting impact on members in retirement if left unchanged. OEA Secretary-Treasurer Mark Hill made the point that the purpose of a pension is to replace a portion of your earnings you had while employed. If the pension benefits do not reflect your true income during employment, it undermines members' economic security.

The Board discussions on this matter are ongoing. Depending on what changes are approved by the Board, they might require changes in administrative rules or legislation to be passed.

STRS Seats New Board Member Amid Continued Legal Battle

Governor Mike DeWine has named Brian Perera to the STRS Board replacing G. Brent Bishop who resigned earlier this month. Mr. Perera is a consultant, former lobbyist for Ohio State University, and former Finance Director for the Ohio Senate. Mr. Bishop was initially appointed to the seat after Governor DeWine removed Wade Steen, his prior appointee, from the Board. Mr. Steen's removal is the subject of an ongoing lawsuit about the Governor's authority to remove his appointed Board members.

Recently, 10th District Court of Appeals Magistrate Thomas Scholl stated that the Governor lacked legal authority to remove Steen. However, that decision is not final or binding. It now goes to a three-judge panel to adopt or reject it. That panel's decision could also be appealed to the Ohio Supreme Court. The Attorney General advised STRS to seat Mr. Perera on the Board and he participated as a voting member in the February meeting.

The STRS Board also announced that Executive Director Bill Neville will remain on leave until at least May. Neville was placed on leave in November in response to an anonymous letter alleging harassment and threats. Attorney General Dave Yost hired outside attorneys to investigate the matter. A statement by STRS said the Board reviewed the investigation's summary before voting to keep Neville on leave. Lynn Hoover, Chief Financial Officer, will continue as acting Executive Director.

OPERS Posts Positive Investment Returns for FY 2023

Preliminary investment reports for 2023 found that OPERS had double-digit investment returns which exceeded their assumed rate of return. OPERS reported a preliminary return of 11.34% for the defined benefit pension plan. This return is above the assumed rate of 6.90% and beat the benchmark return by 0.87%. The OPERS health care fund is invested with a different asset allocation and has a lower assumed rate of return (6.0%). The health care fund posted a preliminary return of 13.96% for the year, beating the benchmark by 0.32%. All returns are reported net of fees.