

Pension Levers and Plan Design Options

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- Pension Plan Key Concepts
- Levers
- Other alternative plan changes



Pension Plan Key Concepts



$$C + I = B + E$$



Contributions + Interest = Benefits + Expenses

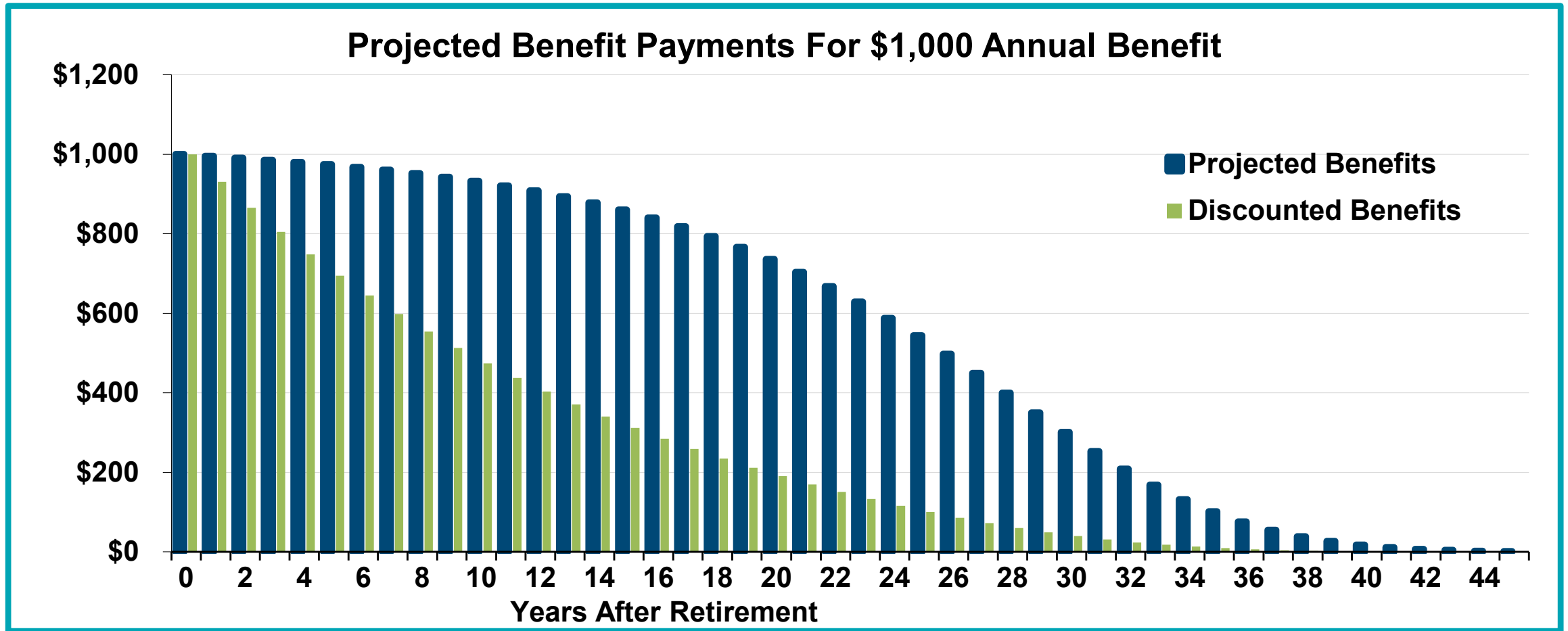
Contributions and interest earned on those contributions over time must equal benefits paid to participants and expenses of running the pension plan



- Present Value (PV) discounts future cash flows to today
- Examples below assume 7% expected return
 - PV of \$100 payable today is . . . \$100
 - PV of \$100 payable next year is:
 - $\$100/1.07 \sim \93
 - PV of \$100 payable in two years is:
 - $\$100/1.07^2 \sim \87
 - \$280 today could pay for a \$100 payment for three years ($\$100+\$93+\$87=\280)



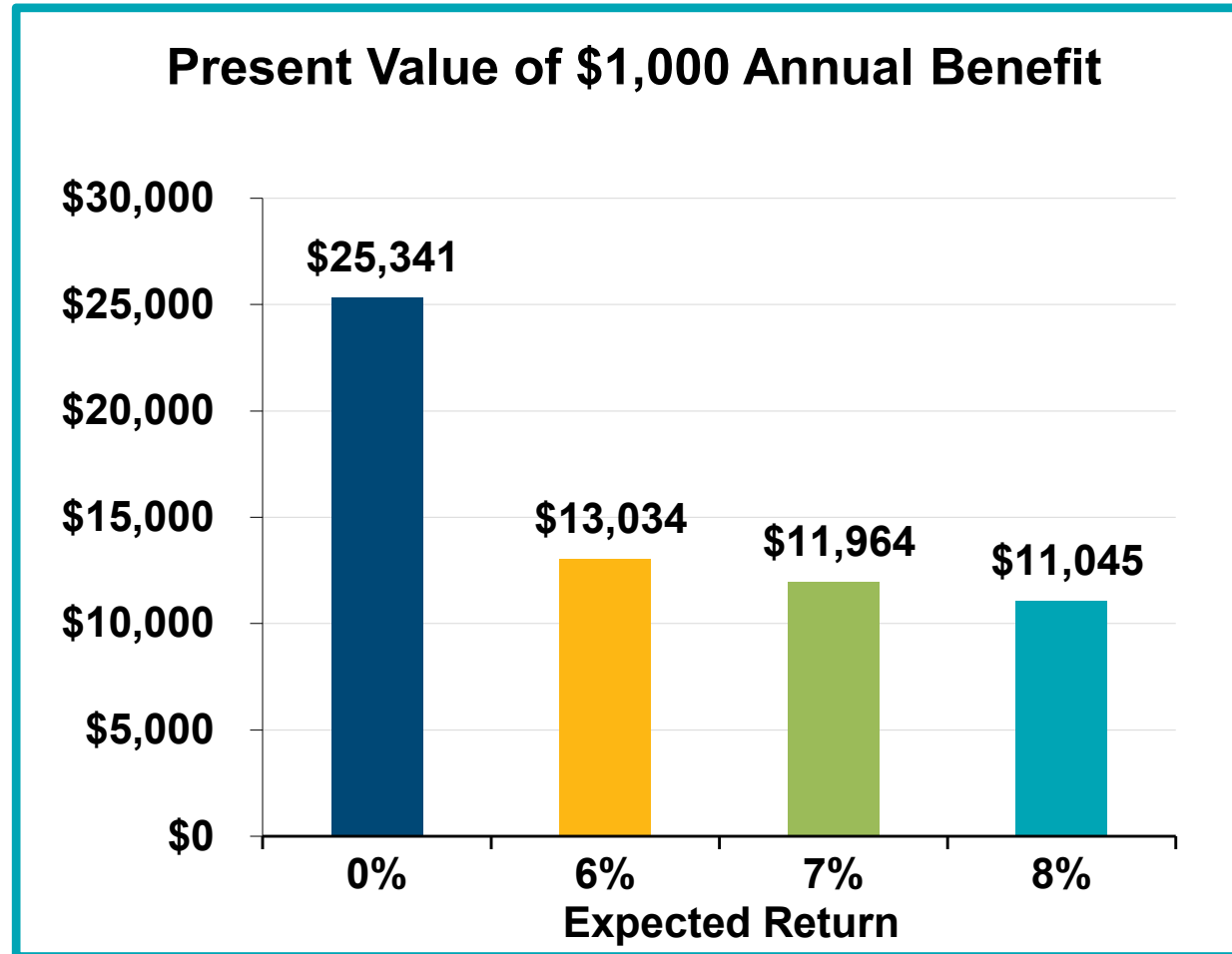
- Present Value (PV) of pension benefits also includes the **probability that the member remains alive**
- PV of \$1,000 payable annually to John Carpenter while he is alive
 - $\$1,000 + \$1,000/1.07 \times 99\% + \$1,000/1.07^2 \times 98\% + \dots \sim \$12,000$



Reflects probability member remains alive and uses a 7% expected return

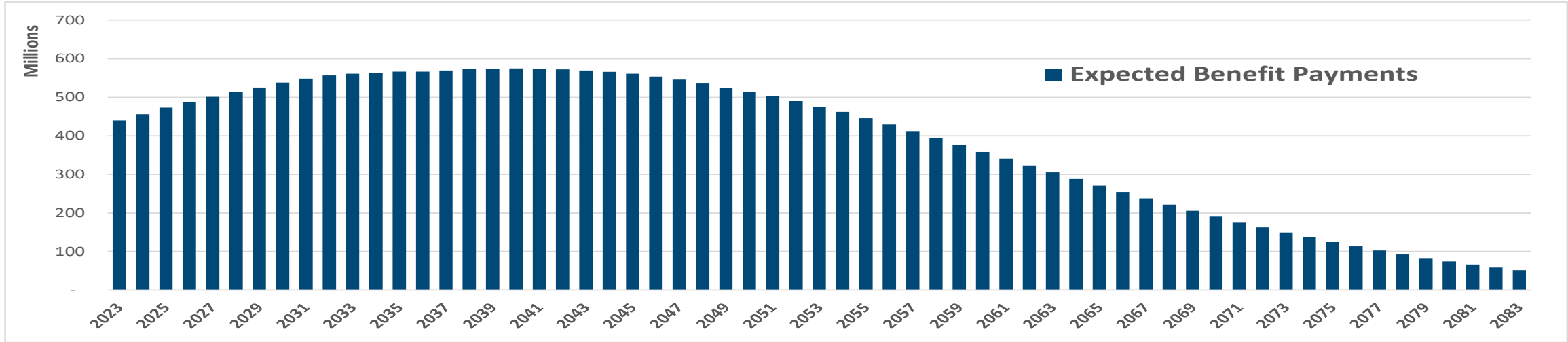


- Present Value (PV) of pension benefits vary depending on the assumptions used
- Hypothetical impact of varying expected return and mortality assumptions are shown on the next few slides



A one percent (100 basis point) change in the expected return changed the present value of benefits by 8-9%.

Pension Liabilities



Total expected future benefits

Present Value of Future Benefits

Discount to present

Actuarial Liability

Normal Cost

PV of Future Normal Cost



Levers

Levers included in the Actuarial Valuation Report



- + 1% contribution from ER
- - 1% contribution from EE
- Permanent COLA in FY 2025 of 1%, 2%, & 3%
- Ongoing annual repeating COLA of 1%, 2%, & 3%
- Eligibility for unreduced retirement changed to 34, 33, 32, 31, and 30 years of service

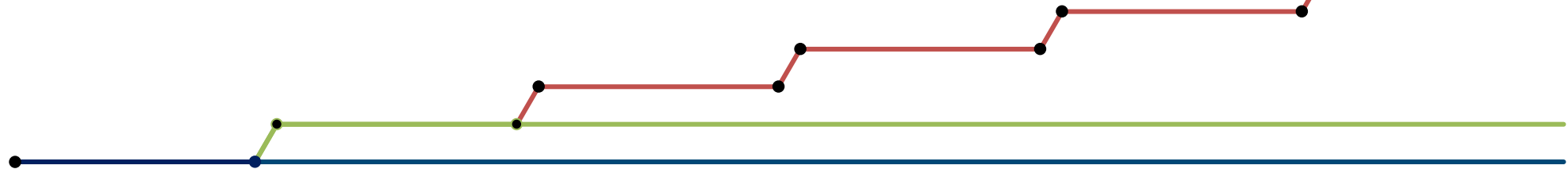


- +1% additional contribution from employers
 - No impact on benefits
- -1% contribution from employees
 - Small decrease in present value of benefits due to return of contributions being less for those who take that option

Levers Details – COLA Examples



- Base Pension Benefit
- Permanent COLA in One Fiscal Year
- Ongoing Annual Repeating COLA





- Change Service requirement for unreduced retirement
 - Values shown for levers report use the current valuation assumptions (no changes to participant behavior)
 - Changes to unreduced retirement provisions may change participant behavior and should be considered when making material changes

Levers Details – Table with Preliminary SBEP



Modeled as if FY2024 results exactly matched assumptions			Valuation metrics 6/30/2024		Outlook and funding policy metrics on 6/30/2024			SBEP	
			If results=assumptions FY2024						Preliminary*
			Normal Cost 2024	Actuarial Liability 2024	Funded Ratio 2024	Funding Period 2024	Summary Score 2024	Budget Impact (\$M)	
0	DB Plan, provisions as of FY2023		10.67%	105,341	80.3%	9.7	-1	\$0	
Scenario			<i>Change</i>	<i>Change (\$M)</i>					
1.1	Contributions	+1% employer contribution rate	0.00%	-	80.3%	9.7	-1	-\$1,360	
1.2		-1% employee contribution rate	-0.02%	(28)	80.2%	9.8	-1	\$1,310	
2.1	COLA	3% ongoing annual repeating simple COLA, FY2025+	1.69%	20,584	67.2%	33.7	-7	\$21,280	
2.2		2% ongoing annual repeating simple COLA, FY2025+	1.13%	13,722	71.1%	22.5	-5	\$14,180	
2.3		1% ongoing annual repeating simple COLA, FY2025+	0.56%	6,861	75.4%	15.1	-3	\$7,090	
2.4		Permanent 3% COLA, FY2025 only	0.00%	1,453	79.2%	10.6	-2	\$1,360	
2.5		Permanent 2% COLA, FY2025 only	0.00%	969	79.6%	10.3	-1	\$910	
2.6		Permanent 1% COLA, FY2025 only	0.00%	484	80.0%	10.0	-1	\$450	
3.1	Eligibility	Unreduced retirement at 34 years	0.18%	702	79.8%	10.3	-2	\$850	
3.2		Unreduced retirement at 33 years	0.40%	1,726	79.0%	11.2	-2	\$1,990	
3.3		Unreduced retirement at 32 years	0.59%	2,621	78.4%	12.0	-2	\$2,970	
3.4		Unreduced retirement at 31 years	0.75%	3,314	77.8%	12.6	-2	\$3,730	
3.5		Unreduced retirement at 30 years	0.86%	3,781	77.5%	13.1	-2	\$4,220	

* Preliminary results based on same assumptions as those used in the FYE 2023 valuation



- Changes to unreduced eligibility but only for a temporary period
 - Extension of 34 years for 10 additional years
 - 33 years unreduced for 5, 10, and 15 years
- Early retirement factor “cliff”



- Change service requirement for unreduced retirement
 - Early retirement factors are actuarially equivalent for each year retirement starts prior to unreduced eligibility
 - Temporary requirements create “cliffs”, which become steeper when the change is larger (i.e. change from 34 back to 35 versus change from 33 to 35)

Early Retirement Cliff – Current Plan Example



Using the **CURRENT** plan provisions - **Unreduced** at 34 years through July 1, 2028
 Changing to unreduced retirement at 35 years on August 1, 2028

	Person A		Person B
On July 1, 2027			
Age	60		60
Service	33	<= Person A has 1 more year of service than Person B	32
Final Avg Pay (FAP)	60,000		60,000
Years before unreduced	1	Person B has 2 more years of reduction for early retirement =>	3
Accrued Multiplier	72.6%		70.4%
Benefit before reduction	43,560		42,240
Reduction Factor	9%	<= This creates a "Cliff" between the reduction factors =>	24%
Multiplier w/ reduction	66.1%		53.5%
Reduced Benefit	39,640		32,102

Early Retirement Cliff – 33 years increasing to 35



If the Plan is changed to allow unreduced retirement at 33 years through July 1, 2028
 Changing to unreduced retirement at 35 years on August 1, 2028

	Person B		Person C
On July 1, 2027			
Age	60		60
Service	32	<= Person B has 1 more year of service than Person C	31
Final Avg Pay (FAP)	60,000		60,000
Years before unreduced	1	Person C has 3 more years of reduction for early retirement =>	4
Accrued Multiplier	70.4%		68.2%
Benefit before reduction	42,240		40,920
Reduction Factor	9%	<= The "Cliff" between the reduction factors has grown =>	30%
Multiplier w/ reduction	64.1%		47.7%
Reduced Benefit	38,438		28,644

Options – Cost Analysis



- Estimates of temporary extension of reduction in service required for unreduced retirement eligibility
 - Budget impact will be refined in the spring for SBEP discussion
 - Retirement rates increased in the year before change to account for the cliff

<u>Enhancement</u>	<u>First Year COLA</u>	<u>Future Years COLA</u>	<u>ER Contrib</u>	<u>EE Contrib</u>	<u>Elig. Unred</u>	<u>SBEP Budget Impact (\$M)</u>
Baseline - Actual	-	-	14%	14%	34 yrs for 5 yrs	Preliminary*
3.1B - 34 yrs, temp for 10 more yrs	No	No	14%	14%	34 yrs for 15 yrs	\$ 500
3.2B - 33 yrs, temp for 5 yrs, Adj. Rates	No	No	14%	14%	33 yrs for 5 yrs	\$ 800
3.2C - 33 yrs, temp for 10 yrs, Adj. Rates	No	No	14%	14%	33 yrs for 10 yrs	\$ 1,370
3.2D - 33 yrs, temp for 15 yrs, Adj. Rates	No	No	14%	14%	33 yrs for 15 yrs	\$ 1,640

* Preliminary results based on same assumptions as those used in the FYE 2023 valuation



- December – Valuation Report Updated with Plan Design Levers
- February-March – Economic Assumptions Review
- February-April – SBEP Calculations of Budget & Costs of Enhancements

Required Disclosures



The purpose of this presentation is to present actuarial the valuation results for the State Teachers Retirement System of Ohio. This presentation is for the use of the Board and System staff.

In preparing our presentation, we relied on information, some oral and some written, supplied by the State Teachers Retirement System of Ohio. This information includes, but is not limited to, the plan provisions, employee data, and financial information. We performed an informal examination of the obvious characteristics of the data for reasonableness and consistency in accordance with Actuarial Standard of Practice No. 23.

The actuarial assumptions, data, and methods are those used in the preparation of the Actuarial Valuation Report as of June 30, 2023.

The assumptions reflect our understanding of the likely future experience of the System, and the assumptions as a whole represent our best estimate for the future experience of the System. The results of this presentation are dependent upon future experience conforming to these assumptions. To the extent that future experience deviates from the actuarial assumptions, the true cost of the System could vary from our results.

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We hereby certify that this presentation and its contents have been prepared in accordance with generally recognized and accepted actuarial principles and practices and our understanding of the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board as well as applicable laws and regulations. Furthermore, as credentialed actuaries, we meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this presentation. This presentation does not address any contractual or legal issues. We are not attorneys, and our firm does not provide any legal services or advice.

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