



Ad Hoc Legislative Committee

Dec. 13, 2023

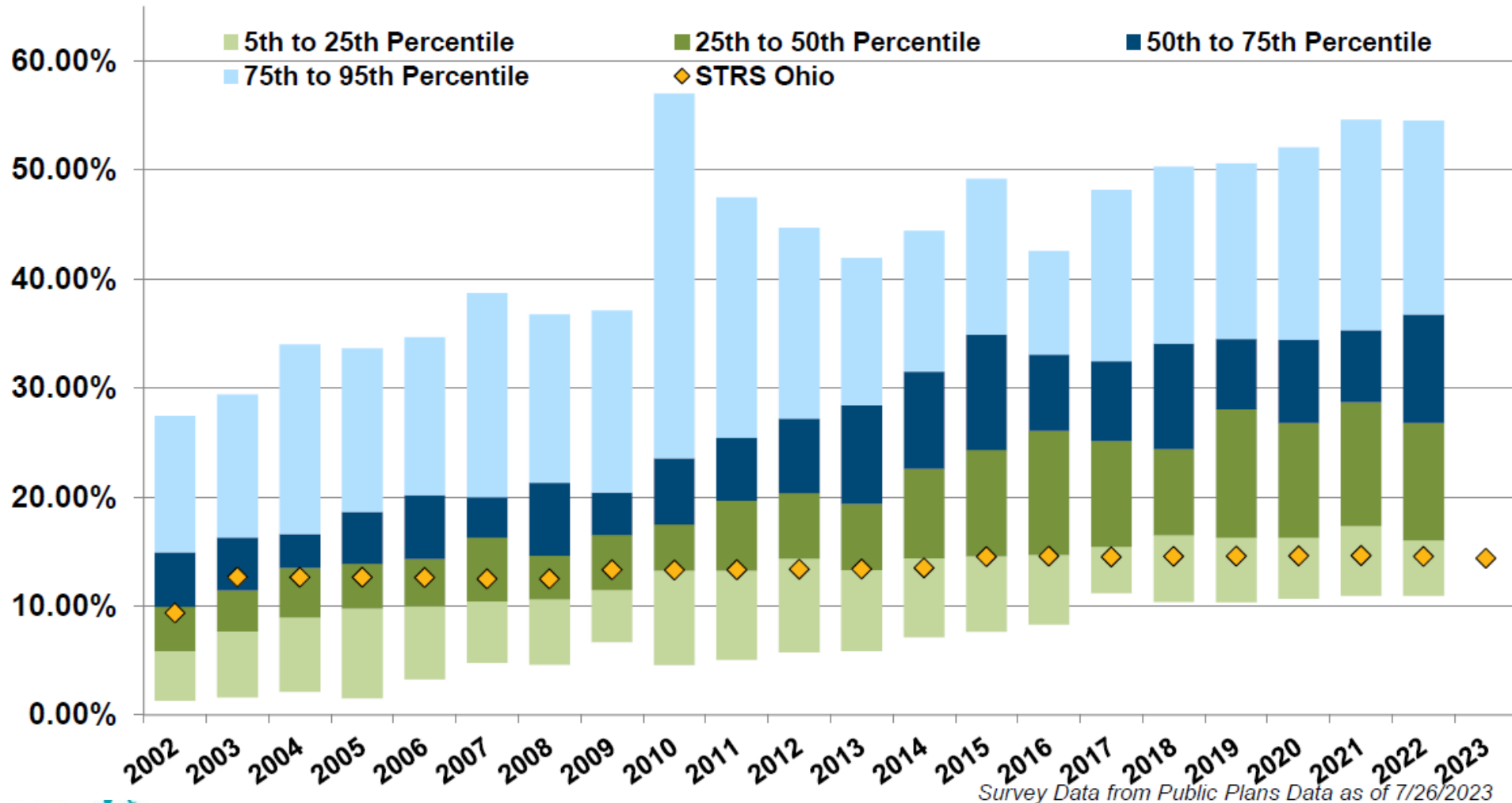
- **Preschool teachers**
- **Employer contributions/state appropriation**
- **Pending legislation**
- **Administrative Code disability rule**
- **Disability review panel – appeal process options**
- **Health care eligibility**

- **Efforts by STRS Ohio to include preschool teachers as members have been underway for a while (currently covered by SERS)**
- **Request to Attorney General for informal opinion on preschool teacher membership**
- **Response – statute does not require licensure, hence, preschool teachers should remain in SERS**
- **Staff recommendation – approach Department of Education and Workforce for consideration of the matter as it is the lack of licensure in the DEW allowing these teachers to be covered by SERS**

- Efforts continue relative to the introduction of legislation proposing an increase in the employer contribution rate to 18% phased-in over eight years
- Statements of support have been requested from various stakeholders
- Following up from October – Cheiron slides demonstrate how low the employer contribution rate is compared to other systems whose participants are not covered by Social Security
- January 2024 target for introduction

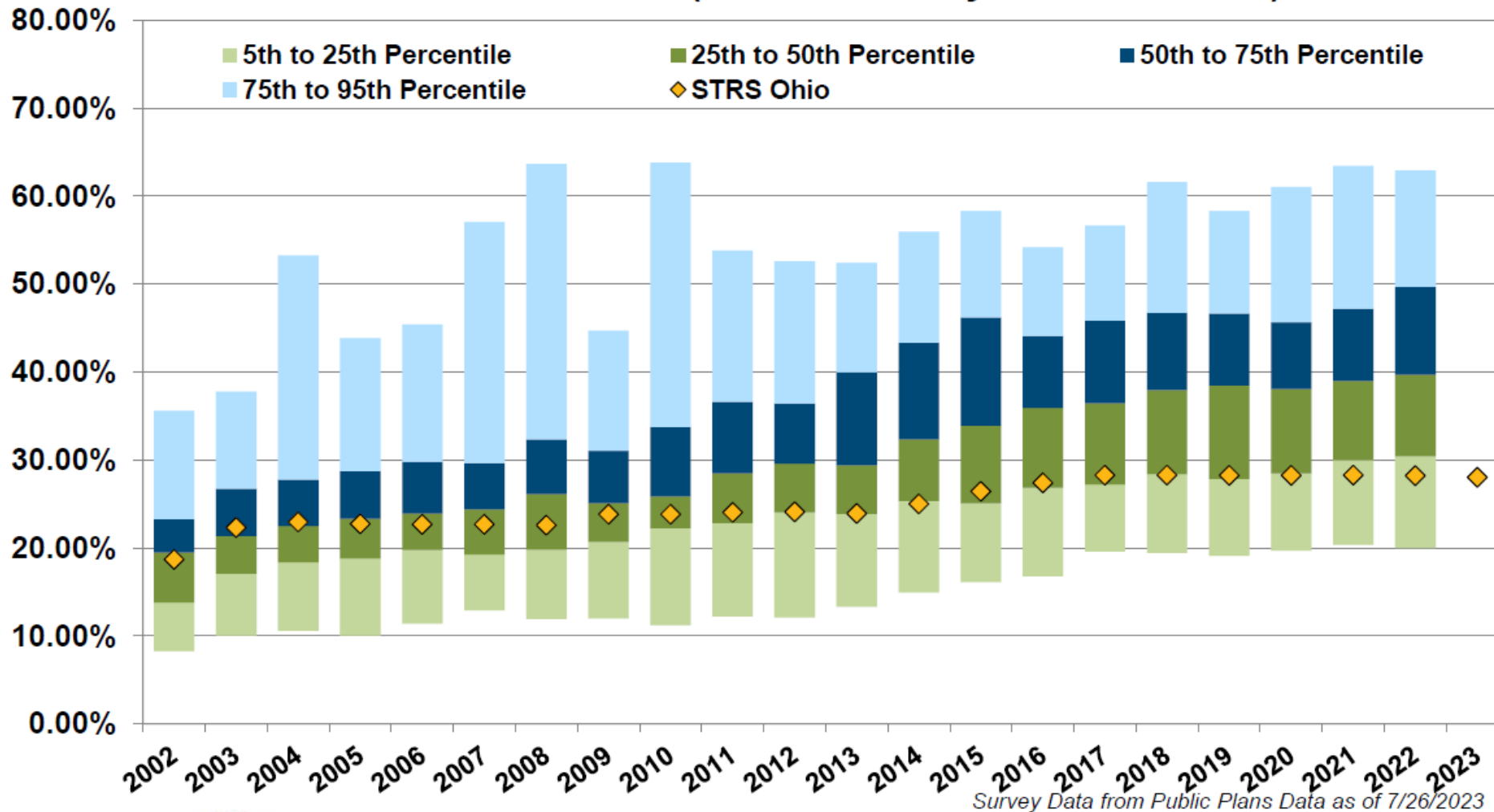
Employer Contribution Rate Comparison (No SS)

ER Contribution Rate (Social Security = Not Covered)



Total Contribution Rate Comparison (No SS)

Total Contribution Rate (Social Security = Not Covered)



- **Appropriations from general fund:**

- Colorado
- Minnesota
- Montana
- North Carolina
- Rhode Island

- **Appropriations from general fund surplus:**

- Connecticut
- Hawaii
- North Carolina
- Oklahoma

- **House Bill 310 – purchase of military service credit**
- **House Bill 78 – reemployed retirees serving on STRS Ohio board**
- **House Concurrent Resolution 6 – urges Congress to repeal Windfall Elimination Provision and Government Pension Offset**

- **ORC 3307.48**

- Disability benefit is immediately terminated if recipient performs any teaching service.
- Allows STRS Ohio Board to define “to perform any teaching service.”

- **OAC 3307:1-7-01(D)**

- “To perform any teaching service” includes all employment, contracted services, or volunteer work that relates to the work of educators, such as, but not limited to, writing curriculum, leading workshops, providing training, instructing students of any age, or directing teachers, student teachers or students.

- **Assign staff to review record on appeal**
 - Eliminate the Disability Review Panel (DRP) and create a staff panel to review record on appeal to determine if additional information or additional examinations are needed to ensure the decision was made with complete information
- **Eliminate personal appearance**
 - Eliminate the personal appearance and the recommendation would be based on the additional medical evidence and the written personal statement of limitations provided by the member

- **Historical changes in health care**
- **Normal costs, minimal funding ratio & scorecard**
- **Impact of changing years of service (YOS) requirements (34 and 30 YOS)**
- **Implementation considerations**
- **Cheiron's detailed analysis**

- **Significant plan changes were required due to the great recession**
 - Recession stopped initiative to have legislation allowing 5% dedicated funding towards health care
 - The annual required contributions were 7.66% in 2009 and 6.14% in 2010 while health care only had 1% funding from employer contributions
- **The change to the subsidy range was part of program changes passed to allow health care to function within the 1% annual employer contributions**
 - In June 2014, 1% employer contributions ceased

- Cheiron estimates the minimum funding percentage required to fully fund health care is 140%. Given the health care program receives no employer contributions, 40% of the total is necessary to cover the present value of future normal costs.

Current total assets (in millions)	\$4,783
Current liability projected at	\$2,838
To cover the normal cost (40% of liability)	<u>\$1,135</u>
Minimum funding necessary to cover current projected liability & normal costs*	<u>\$3,973</u>
Assets exceeding minimum funding	\$ 810

*Minimum necessary if all assumptions are met

- **Risk tolerance considerations for the \$810 million in assets exceeding minimum funding baseline**
 - No source of funding currently; solely relies on market returns
 - From 2022 to 2024 premiums, deductibles and copays all decreased for most
 - While impacts have all been projected, outcomes are more volatile than most years because of the size and number of changes (**more uncertainty than usual**)
 - Market volatility and loss of government subsidies and pharmacy rebates
- **The significance of these changes reflected in scorecard moving from +9 to 0 from 2022 to 2023 valuation (liability increased from \$1.98 billion to \$2.84 billion [43% increase])**

Impact of Changing YOS Requirements (34 and 30 YOS)



Cheiron Estimated Impacts on OPEB (Health Care) Valuation

Scenario	Pension Eligibility Requirements For Retirements during:		Health Care Requirements For Retirements >=Aug. 1, 2023		Actuarial Liability (\$M) FY 2023	Funded Ratio FY 2023	Summary Score FY 2023
	FY 2024-28	FY 2029+	Eligibility	Max Subsidy			
FY 2022	35 years	35 years	20 years	35 years	\$1,980	231%	+9
FY 2023 Baseline	34	35	20	35	\$2,839	169%	0
Scenarios for new retirements on or after August 1, 2023					Change to Health Care Liability (\$M)	Funded Ratio FY 2023	Summary Score FY 2023
1.1	34	35	20	34	\$45	166%	-1
1.2*	34	34	20	34	\$95	163%	-1
2.1	34	35	20	30	\$158	160%	-2
2.3*	30	30	20	30	\$551	141%	-4
Notes:							
As a result of the STRS Ohio Health Care Program not receiving any Employer Contribution funding, Cheiron has estimated that the minimum current Funded Ratio necessary to maintain full funding of the program (if results match assumptions) is approximately 40% of liabilities.							
*Scenarios 1.2 and 2.3 involve changes to the pension eligibility requirements that could not be implemented unless analyzed and deemed sustainable by the independent actuary							



- **If board elects to make a change there is additional impact as we have passed the original Aug. 1, 2023, effective date**
 - The pension plan delayed the move from 34 YOS to 35 YOS requirement before it went into effect, while the potential adjustments to health care discussed here would impact subsidy calculations that went into effect several months ago
 - Extensive research and system testing will be required to see how a change could impact prior premium billings
- **IT programming**
 - Programming will likely be necessary
 - While pension moved in one-year steps every other year, health care made a single jump from 15 to 20 YOS for eligibility and 30 to 35 years maximum subsidy for retirements on or after Aug. 1, 2023 (the cost to implement was \$50k)

Cheiron's Detailed Analysis

STRS -- Impact on OPEB Valuation of Changing Years of Service for Full Pension Eligibility and Retiree Contribution Subsidy

Table I-1 Summary of Key Valuation Results						
Scenario	Baseline	34 yos subsidy	34 yos subsidy	30 yos subsidy	30 yos subsidy	30 yos revised
Yos requirement for max subsidy	35 yos '23	34 yos '23	34 yos '23	30	30	30
YoS requirement for Full Pension Eligibility	34/35 yos '23/'28	34/35 yos '23/'28	34 yos '23 align w/pension	34/35 yos '23/'28	30 align w/pension	30 align w/pension
Other Decrement changes	No	No	No	No	No	Retirement Rates
Valuation Date	June 30, 2023	June 30, 2023	June 30, 2023	June 30, 2023	June 30, 2023	June 30, 2023
Discount Rate	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%
Actuarial Liability						
Current retirees, beneficiaries, and dependents	\$ 1,186,115,669	\$ 1,186,115,669	\$ 1,186,115,669	\$ 1,186,115,669	\$ 1,186,115,669	\$ 1,186,115,669
Current active members	1,643,818,904	1,688,642,904	1,738,578,498	1,801,938,790	2,086,732,131	2,195,024,267
Terminated members entitled but not yet eligible	8,608,785	8,608,785	8,608,785	8,608,785	8,608,785	8,608,785
Total Actuarial Liability	\$ 2,838,542,503	\$ 2,883,367,358	\$ 2,933,302,952	\$ 2,996,663,244	\$ 3,281,456,585	\$ 3,389,748,721
Health care fund assets	4,783,404,347	4,783,404,347	4,783,404,347	4,783,404,347	4,783,404,347	4,783,404,347
Unfunded actuarial liability (UAL)	(1,944,861,844)	(1,900,036,989)	(1,850,101,395)	(1,786,741,103)	(1,501,947,762)	(1,393,655,626)
Funded Ratio	168.52%	165.90%	163.07%	159.62%	145.77%	141.11%
Delta AL	\$ 44,824,855	\$ 94,760,449	\$ 158,120,741	\$ 442,914,082	\$ 551,206,218	
Score Card Results for 2023	0	-1	-1	-2	-4	-4

Table I-2 Calculation of Actuarially Determined Contribution (ADC) (\$ thousands)						
Scenario	Baseline	34 yos subsidy	34 yos subsidy	30 yos subsidy	30 yos subsidy	30 yos revised
Pension Eligibility	No	no change	align w/pension	no change	align w/pension	align w/pension
For Fiscal Year Ending	June 30, 2024	June 30, 2024	June 30, 2024	June 30, 2024	June 30, 2024	June 30, 2024
Normal cost	\$61,724	\$63,424	\$65,309	\$68,155	\$78,603	\$82,896
Amortization of UAL	(106,741)	(106,741)	(106,741)	(106,741)	(106,741)	(106,741)
Interest adjustment	(3,151)	(3,032)	(2,900)	(2,701)	(1,970)	(1,669)
Total ADC (not less than \$0)	\$0	\$0	\$0	\$0	\$0	\$0
Projected payroll	\$ 13,274,839	\$ 13,274,839	\$ 13,274,839	\$ 13,274,839	\$ 13,274,839	\$ 13,274,839
ADC as a percentage of pay	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Expected Net Benefit Payments	\$ 158,862	\$ 159,184	\$ 159,184	\$ 160,441	\$ 162,729	\$ 163,709
Projected Net Benefit Paymentf for FYE:						
2025	169,124	169,803	169,803	171,866	177,885	180,291
2026	174,880	175,916	175,916	178,753	187,981	191,620
2027	179,846	181,258	181,258	184,898	197,269	202,035
2028	185,489	187,308	187,308	191,763	207,222	213,118
2029	191,938	194,150	195,711	199,519	219,478	226,668



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