

Ensuring Fiscal Integrity of STRS Ohio

Sustainable Benefits Enhancement Plan – Part 1 Discussion

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Presented by
Bonnie Rightnour, FSA
Mike Noble, FSA





- Background
- Fiscal Integrity – What
- Fiscal Integrity – Why
- Fiscal Integrity – How



*The Board may adjust certain benefits of the System if the Board actuary determines that the adjustment **does not materially impair** the fiscal integrity of the system, or is necessary to preserve the fiscal integrity of the system*



- What is Fiscal Integrity?
 - Not defined in legislation
 - What are the characteristics of a system with fiscal integrity



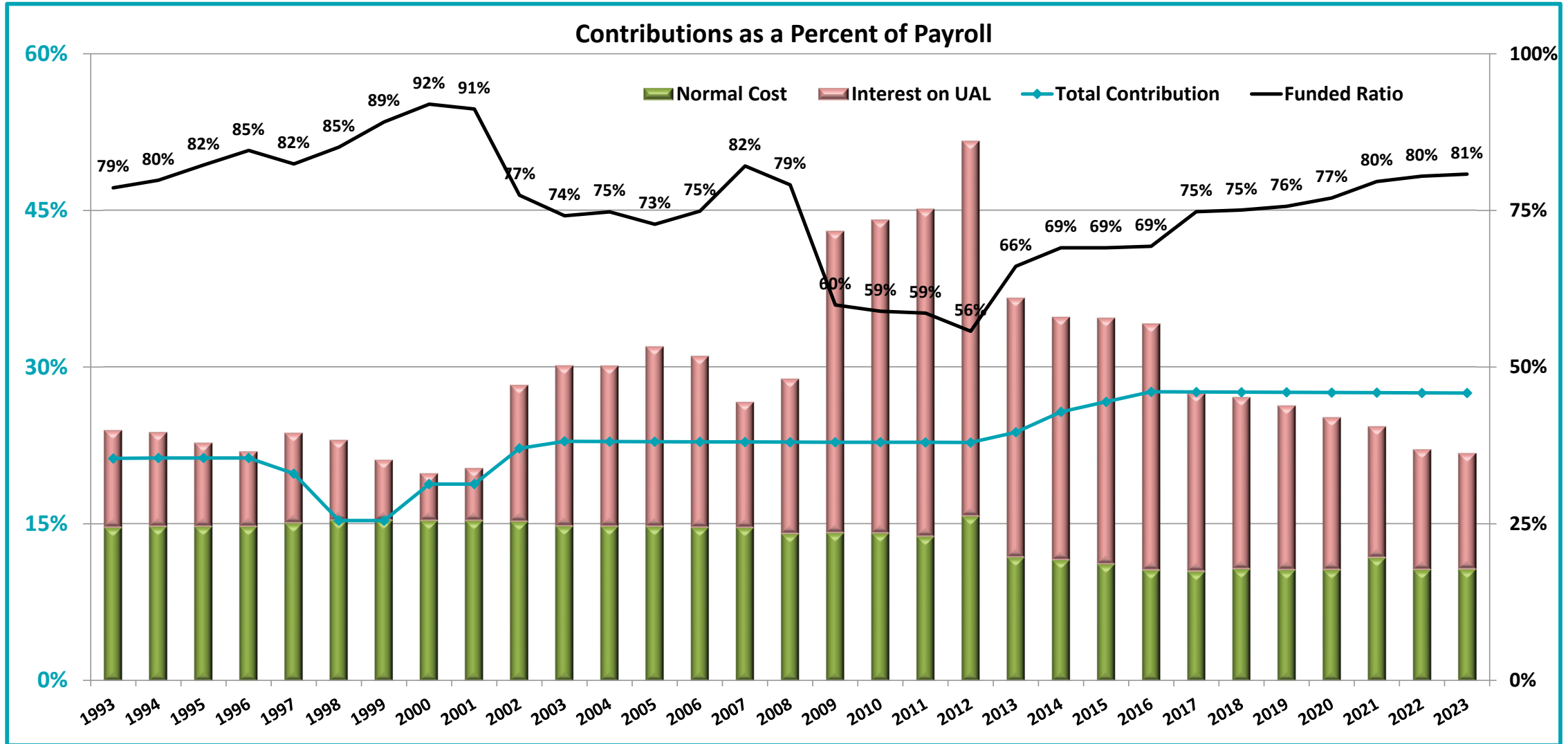
- Other types of Integrity
 - Banking system
 - Strong regulation and oversight
 - Robust risk management practices
 - Adequate capital requirements
 - All meant to maintain stability and build public trust
 - Structural integrity
 - A building's ability to withstand forces and transfer loads safely
 - Key concepts include strength, stability, and flexibility
 - Materials, connections, load paths, and redundancy all contribute



- Why is this requirement included in Ohio Law?

- Why does the actuary need to make a determination prior to a benefit enhancement?

Fiscal Integrity - Why





- How do we assess fiscal integrity in the system?
 - Current funding level
 - Current progress toward full funding
 - Expected future conditions
 - Ability to withstand shocks
 - Stress Testing



- Prior to March – Cheiron to re-evaluate analysis of fiscal integrity based on today’s discussion
- March – Cheiron to return with SBEP budget
- March – Cheiron to update modeling tool to provide Board with planning scenarios
 - Meaningful enhancement timing
 - Required return to achieve desired enhancement budget
 - Impact of employer contribution increases
- April – TBD



Appendix



- To comply with Ohio law, Cheiron developed three ‘fiscal integrity’ tests to evaluate whether a change would materially impair the fiscal integrity
 1. Do current contributions exceed treadwater⁽¹⁾?
 2. Years to exceed treadwater after “shock”⁽²⁾ investment return
 3. Probability of contributions exceeding treadwater in 10 years

(1) *Treadwater = normal cost + interest on unfunded liability*

(2) *Shock = 2 standard Deviations below the expected return of 7%*



- Sustainable Benefit Enhancement Plan (SBEP) provides the Board a framework to understand what, if any, budget for sustainable enhancements is available each year
 - Test 1 – Amount A by which contributions exceed treadwater by a margin of 25%
 - Test 2 – Amount B which still allows contributions to exceed treadwater following a “black swan” asset return within 5 years
 - Test 3 – Amount C such that probability that contributions will exceed treadwater in 10 years is above 80%