



State Teachers Retirement System of Ohio

# Governance Consultant Presentation

August 15, 2024 / Scott A. Miller, JD / Melanie Walker, JD

# Agenda

1. Segal's Team
2. Segal's Approach
3. Projected Fees

# Segal's Team



# Segal's Mission:

*“We deliver trusted advice that improves lives.”*



# Segal's Team



Scott A. Miller, JD

Senior Consultant

Administration and Technology Consulting

Lead consultant on this project

26 years of public pension and benefits experience

Consultant, Executive Director, Attorney

# Segal's Team



Melanie Walker, JD  
Senior Vice President  
National Compliance Practice Leader  
Subject matter expert on public plan compliance  
25 years of compliance experience

# Segal's Team



Andrew D. Sherman  
Senior Vice President  
National Director, Public Sector Market  
Subject matter expert and senior leadership support  
30 years of experience



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Our teams help a wide range of industries. No matter who you are, we can assist you with:

Administration and  
Technology Consulting  
Benefit Audit Solutions  
Compensation and Career  
Strategies  
Compliance

Health and Welfare Benefits  
HR and Benefits Technology  
Insurance  
Organizational Effectiveness  
Retirement Benefits

Benefits Communication  
Communication Strategy  
Personalized Benefit Statements  
Surveys and Focus Groups  
Website and Portal Design

Advisory Investment Solutions  
Corporate Governance  
and Proxy Voting  
Defined Contribution Consulting  
Discretionary Consulting

**Not any solution—your solution. Personalized advice and help.**



# Segal's Approach



# The Beginning of Our Relationship

- 1. Contract Negotiation/Execution**
- 2. Work with staff to see where STRS Ohio is regarding the Funston recommendations**
- 3. Prepare what we need for participation in the November Board Education and Planning Meeting**
- 4. Consider timing for strategic planning process and Board self-assessment**

# Strategic Planning

- 1. Review current strategic plan and identify progress made**
- 2. Interview individual Board members, STRS managers, and working groups within STRS Ohio**
  - a) SWOT Analysis**
  - b) Environmental Scan**
- 3. Aggregate information and present to Board**
- 4. Establish goals for the next several years and indicate how progress is identified**

# Governance Services

- 1. Appropriate allocation of responsibilities**
- 2. Policies, procedures, and charters that reflect that allocation/delegation**
- 3. Prudent oversight and periodic re-evaluation**



# Board Policy Manual Support

- 1. The Board's policy manual is the written statement of how the Board intends to fulfil its fiduciary duties.**
- 2. Regular review of those policies is important to keep up with updated fiduciary best practices.**
- 3. Your Segal team has decades of experience reviewing and drafting policies, procedures, and charters.**

# Board Education

- 1. “A good heart but an empty head” is not a defense to a fiduciary duty violation. The Duty of Prudence demands that you be educated.**
- 2. Your Segal team has been to nearly every trustee educational conference offered in the United States.**
- 3. Further, your Segal team members are experts in fiduciary responsibility and would be happy to provide whatever educational presentations you would request.**

# Board Self-Assessments

- 1. Send all Board members a survey.**
- 2. Document those responses for presentation to the Board.**
- 3. Board discussion on things that are going well and things that could use some work.**



# Funston Fiduciary Audit

- 1. Pick the low-hanging fruit**
- 2. Identify critical topics and establish a workplan**
- 3. Prioritize the remaining recommendations**





# Projected Fees



# Projected Fees Per Year

| <b>Effort</b>   | <b>Hours</b> | <b>Cost</b> |
|---|--------------|-------------|
| In-person meetings (six/year, 10/meeting, including preparation)  | 60           | \$24,000    |
| Virtual meetings (eight/year, 10/meeting, including preparation)  | 80           | \$28,000    |
| Annual Board Self-Assessment                                      | 20           | \$7,000     |
| Annual Strategic Planning   | 60           | \$21,000    |
| Governance Structure and Policy and Procedure Review and Drafting | 100          | \$35,000    |
| Other Requested Governance Work                                   | 40           | \$14,000    |
| Scott's Total Per Year  | 300          | \$129,000   |
| Melanie's Total Per Year  | 50           | \$27,750    |
| Andrew's Total Per Year   | 10           | \$6,150     |
| Total Estimated Fees (Upper)                                      | 360          | \$162,900   |

# Questions?



# History — 80 Years of Innovation

| <b>Martin E. Segal founded the firm in New York</b>   |       | <b>Designed Relative Value Schedules</b><br>Our study of surgical benefit claims in California |       | <b>Health and Financial Wellbeing Benefits</b> <ul style="list-style-type: none"> <li>HMO development</li> <li>Preferred Provider Organizations (PPOs)</li> <li>Creative use of pension surplus to finance business transactions</li> </ul>  |       | <b>Life Cycle Benefits</b><br>Segal designed with various alternatives, to address a client's interest in providing "work-family" benefits to employees                             |       | <b>Segal Pulse:</b> Web-based version of the forecast modeling tool<br><br><b>SHAPE</b> (Segal's Health Analysis of Plan Experience): Health cost data mining technology<br><br><b>Ref360:</b> Web-based tool allowing sports leagues to track, monitor and assess officials' performance   |       |
|---|-------|--|-------|--|-------|---|-------|---|-------|
| 1930s   | 1940s | 1950s  | 1960s | 1970s  | 1980s | 1990s   | 2000s | 2010s   | 2020s |
| <b>Competitive bidding</b><br>The actual bidding of medical insurance contracts was introduced by Segal |       | <b>Sabbaticals</b><br>Segal was one of the first companies design a sabbatical program         |       | <b>Actuarial Asset Valuation:</b><br>An actuarial valuation method<br><br><b>The Life Cycle Pension Plan:</b><br>New type of final average salary DB plan<br><br><b>Securing non-qualified benefits:</b> Risk insurance method to securing non-qualified benefits<br><br><b>MediMACS:</b> Physician reimbursement system |       | <b>Work/Life Calculator</b><br>Created Return on Investment (ROI) Calculator to provide clients with reliable data demonstrating the quantitative value of non-traditional benefits |       | <b>Created Analytical Tools</b> <ul style="list-style-type: none"> <li>COVID-19 Medical Plan and STD Cost Impact models</li> <li>M&amp;A Readiness self-assessments</li> <li>Workforce Planning model</li> <li>Employee segmentation tools</li> <li>Automated vendor RFP tool</li> </ul> <b>Onboarding solution</b><br><b>Employee Benefits DEI</b> |       |

Segal's Innovation Lab enhances and supports our culture of innovation. Through in-depth expertise, research, collaboration, and the use of content curation and AI tools, the Lab develops client-centered solutions.

# Ohio State Teachers Retirement System



August 15, 2024

# The Hackett Group Story

The Hackett Group is a boutique pension and investment consulting practice based in New Orleans and was founded by Toni Hackett Antrum in 2011. The firm is an independent institutional investment consulting firm and a Registered Investment Advisor (RIA) with the Securities and Exchange Commission. In addition, the principal of the firm is a registered municipal advisor with the Municipal Securities Rulemaking Board (MSRB). The Hackett Group is 100% Woman and Minority owned and a DBE certified by the City of New Orleans as well as the State of Louisiana. The Hackett Group provides customized investment counsel and consulting services primarily to public funds, retirement plan sponsors, fiduciaries and political subdivisions.

The firm is the successor firm to Washington Hackett, Smith & Company (WHS) - the groundbreaking organization founded 35 years ago as the nation's first minority-owned pension consulting firm.

# Governance

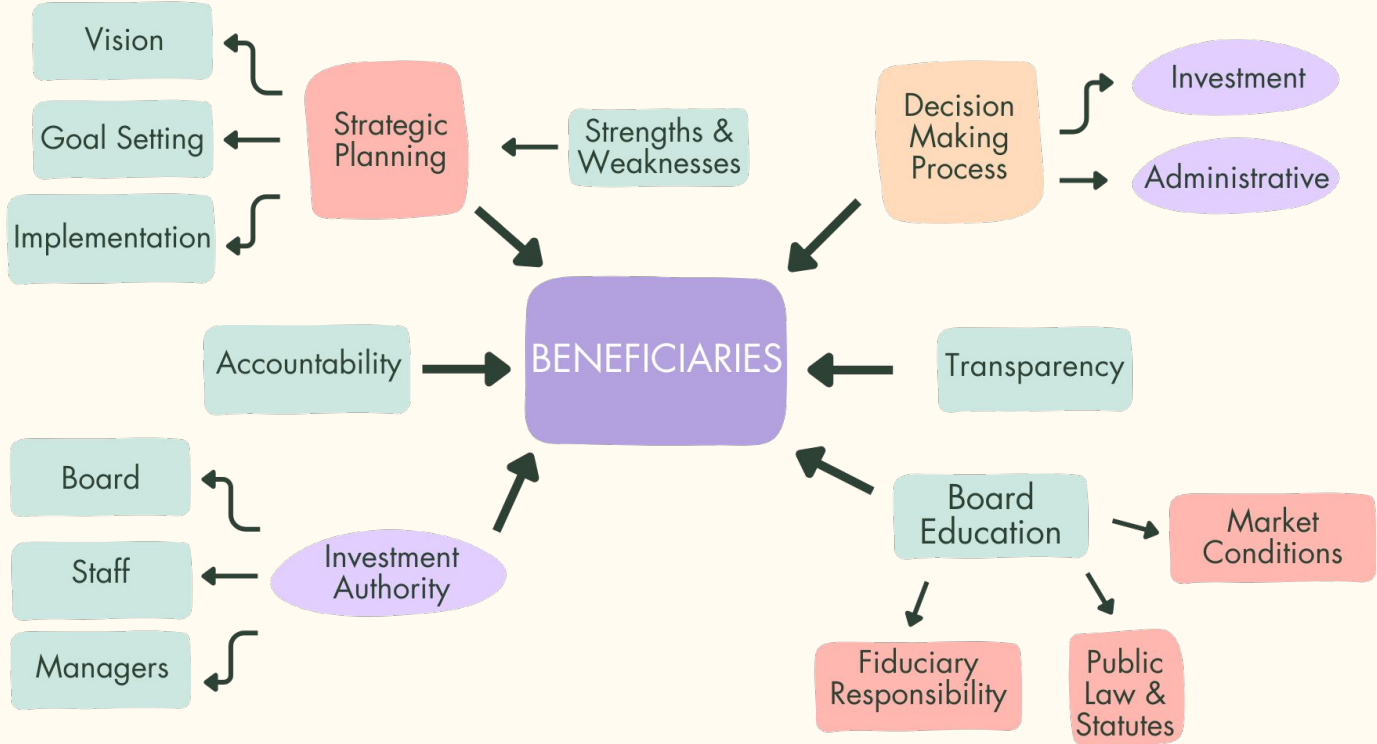
The process of decision making and the process by which decisions are implemented

Fund Governance:

- System of checks and balances
- Protects stakeholder interests
- Evaluates roles of board & staff
- Reviews legal framework and operational procedures

**Good Governance** leads to successfully addressing the plans responsibility to address the needs of its beneficiaries above all else in perpetuity - which includes fund performance.

# Good Governance - Centered around Beneficiaries





# The Journey (Methodology)

How do we get you from where you are now...to where you want to go - Iterative, Collaborative, Customized, Consultative

- Planning
- Document review
- Interview
- Best Practice Research
- Preliminary Assessment
- Analysis
- Recommendations
- Presentation, Communication and Pathway for Implementation

# The Hackett Group Team

Toni - Traditional investment consulting, education and training, ethics, leadership

Chris - CFA, CAIA, Former large plan trustee, experienced investment consultant, audit

Lori - CFA, Head of compliance systems, large plan experience

Alex - Project management, data and IT systems, best practices research, client communications

Anita - Strategic communication, governance structures, strategic transitions for large statewide associations and organizations

Bernard - CRPC, NFL Retired Labor Rep, Education and Training

# Why The Hackett Group?

- ✓ Experienced Senior Consulting Team
- ✓ Independent and Conflict-Free
- ✓ Trustee Education Leaders
- ✓ Subject Matter Experts
- ✓ Diverse Firm/Team



GLOBAL  
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RFP Response:  
**Board Governance Consultant**

Prepared for: **State Teachers  
Retirement System of Ohio**



August 15, 2024

# Our Firm

Global Governance Advisors (GGA) is an independent board advisory firm that has been incorporated in Canada and the United States, working in the area of board governance since 2009.

Prior to starting at GGA, most of our senior staff members spent over a decade or more advising on board governance through other globally recognized firms.

GGA has two main hubs located in:

- The state of Florida, and
- The province of Ontario Canada.



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# Specific Pension Fund Experience

## PENSION FUNDS AND ASSET MANAGERS

A More Fulsome List of the Actively and Passively Managed Pension Funds we have worked with includes:



# Private Fund & Asset Management Experience

## PUBLIC & PRIVATE ASSET MANAGERS

A More Fulsome List of the Private Funds and Non-Pension Asset Managers we have worked with includes:



# Our Standard Services



CORPORATE GOVERNANCE

Sound Governance Underpins Stakeholder Confidence

**We work with client boards to increase effectiveness through:**

- Board education
- Annual disclosure
- Stakeholder engagement
- Employment agreement reviews
- Board governance practice review
- Policy review & development
- Member orientation and training



BOARD EFFECTIVENESS

Effective Boards Lead to Better Results

**We work with client boards to evaluate effectiveness through:**

- Effectiveness self-assessment
- One-on-one interviews
- Peer evaluation
- Board skills assessment & matrix development
- Board diversity
- Meeting attendance and observation



EXECUTIVE COMPENSATION

Executive Compensation Reviews Performance Management drives Recruitment & Retention

**We ensure that compensation is fair and competitive through:**

- Compensation philosophy & strategy development
- Compensation reviews
- Performance management
- Incentive design & stress testing
- Pay-for-Performance analysis
- Risk Audits
- Equity plan assessments



CEO SUCCESSION PLANNING

CEO/CIO Succession is Key Board's Responsibility

**We partner with boards to work through:**

- Strategy articulation
- Emergency succession
- CEO/CIO Profile development
- Internal candidate identification, assessment and development
- Competitive pay analysis
- Board support during retained search process



# Additional Services Requested By Clients



**In addition to the work previously listed, we have worked with client boards to increase effectiveness by:**

- Facilitating long-term strategic planning
- Assessing and opining on foundational documents & legislation
- Facilitating Board Investment Advisor selection
- Developing risk appetite frameworks & statements
- Developing and implementing board succession strategies



**In addition to the work previously listed, we have ensured that compensation was fair and competitive by:**

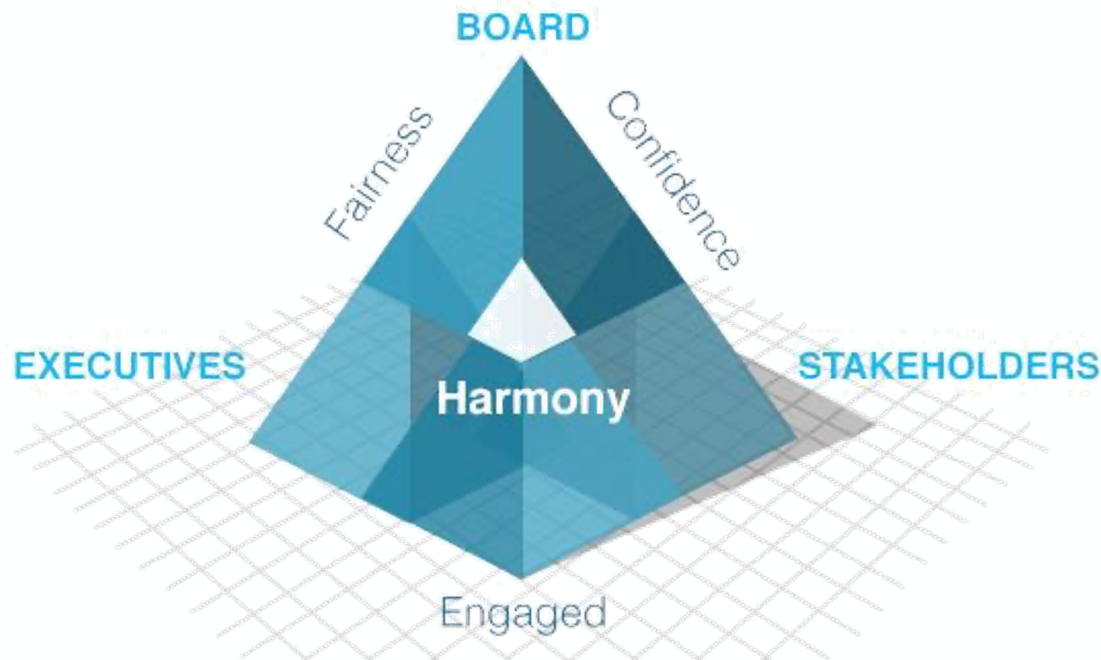
- Facilitating annual performance appraisals
- Conducting historic probability assessments of key performance objectives
- Training managers and staff on how to conduct effective performance discussions



**In addition to the work previously listed, we have partnered with boards by:**

- Assessing senior leadership skills & abilities
- Restructuring corporate leadership and accountability models
- Facilitating ED and CEO selection processes

# Board, Staff & Stakeholder Relationships



**Although GGA always remains accountable to the Board, we bring the added value of:**

- working in collaboration with Senior Management,
- providing increased transparency, and
- helping to foster management buy-in and cooperation at the front-end of the governance and strategic planning review process.

# History of Delivering Education Programs

## GGA Delivers Compensation & Corporate Governance Certification Programs

### The NCPERS Accredited Fiduciary Program

GGA has partnered with the National Conference on Public Employee Retirement Systems (NCPERS) to develop an accredited program tailored for public pension trustees.

Topics covered in the program include:

1. Governance and the Board's Role
2. Investment, Finance, and Accounting
3. Legal, Risk Management, and Communications
4. Human Capital (including compensation & incentive design)



### Partnerships with Leading HR Associations



With the above education experience, most clients request specialized board education sessions from GGA on an ongoing basis to help ensure their boards are well equipped and fully aware of current best practices.

# Start By Understanding



## Key Factors Considered:

- Level of trust and respect between Board & staff
- Delegation of Authority between Board & staff
- Quality of materials provided to Trustees
- Effectiveness of Board meetings
- Political dynamics
- Historic results (i.e., is current process leading to positive results?)
- What do you want in the future?

# Our Assessment Process

## Step 1

### Knowledge Exchange

Involves desktop materials review & one-on-one interviews with key stakeholders (Trustees, Senior Staff).

Cover topics such as historical context, future aspirations, what is working/not working with current governance structure, current skill gaps, burning topics and preferred structure moving forward



## Step 2

### Custom Survey Development

Developed by partnering with STRS and leveraging insights gained through discussions with key stakeholders.

Cover areas such as:

- Composition, Responsibilities & Effectiveness
- Chair Effectiveness
- Committee Effectiveness
- Fund Oversight
- Fellow Trustees
- Personal Effectiveness



## Step 3

### Survey Administration & Analysis

GGA will collect survey responses and analyze the response data to identify trends and correlate them with current best practices.

Most notable items get validated through one-on-one follow-up conversations.

Recommendations are summarized and categorized into short, medium, & long-term priorities.



## Step 4

### Recommendations & Workplan Foundation

GGA will use the results of the custom survey to highlight key findings and recommendations. This will include potential governance updates that could be addressed or implemented by STRS.

The categorization of the recommendations provide a strong foundation for a governance improvement workplan.

Lighter follow-up assessments are recommended for years 2 & 3 that help to show progress against top priority issues identified in year 1. As well, it provides an opportunity for Trustees to identify and new issues that may materialize.

# Adding Value to Pension Systems



## GGA Adds Value to Investment Programs to Become Top Performing by Ensuring:

- ✓ Appropriate governance structures that align with desired strategic outcomes
- ✓ Appropriate reporting relationships (i.e., delegated authority)
- ✓ Improved Board reporting and communication processes
- ✓ Valued staff are paid competitively (both from a design and levels perspective)
- ✓ Proper incentive design that objectively aligns staff pay with short and long-term performance
- ✓ Greater independent advice for the Board/Committees, when needed
- ✓ Improved risk management awareness and monitoring
- ✓ Improved understanding of governance and its role in asset oversight
- ✓ Enhanced stakeholder engagement and support



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# Pension Funding of Member Benefits

## Policy Updates



Aug. 15, 2024



## Why update the Funding Policy now?

- Current Board Pension Funding policy was last updated in 2019
- Since that time, the board and staff worked with Cheiron to develop the Sustainable Benefits Plan (SBP)
- STRS Ohio now has a Governance Committee

**The funding policy changes suggested include input from Cheiron and senior staff. The following reviews the language of the funding policy and additional information.**

- Funding policy slides will be denoted with 
- Information slides will be denoted with 

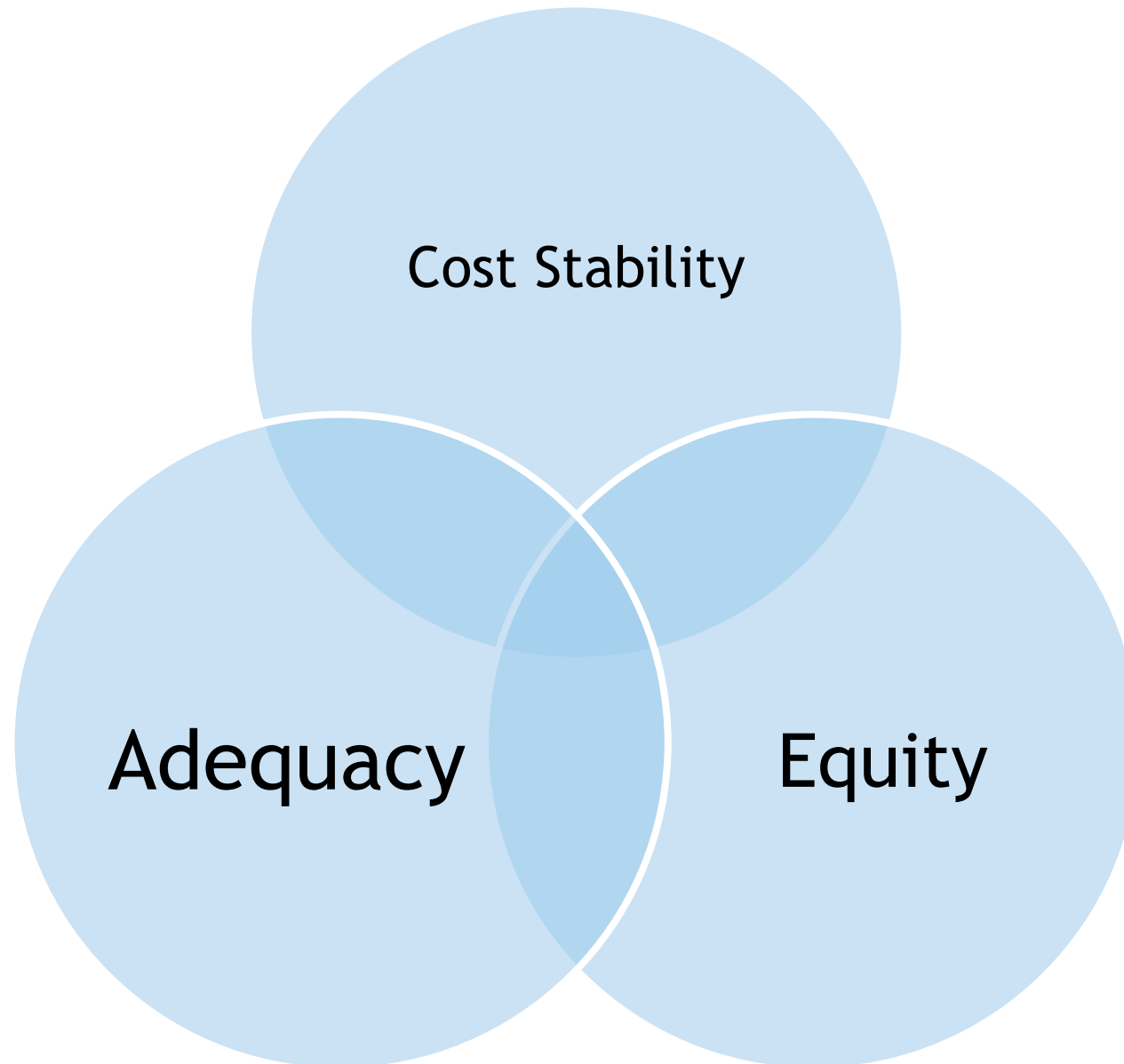
# The Purpose of a Funding Policy

**A pension plan funding policy describes how pension benefits will be financed. It should lay out the board's objectives describing long-term objectives and shorter-term objectives.**

- Maintaining intergenerational equity is a long-term objective
- Describing how the board will prioritize using budget for sustainable benefit adjustments is a shorter-term objective that will change over time

**Allows for a long-term benefit enhancement strategy to be established and communicated to all members while promoting transparency and accountability.**

# Objectives of a Funding Policy








To satisfy the statutory requirement that benefit adjustments do not materially impair the fiscal integrity of the system, staff worked with Cheiron to develop the SBP.

- SBP incorporates board feedback with general actuarial principals to evaluate the fiscal integrity of the system
- The three SBP fiscal integrity tests use treadwater (normal cost + interest on unfunded liability)

The funding level objective (currently 100%) does not directly impact SBP budget available; however, asset volatility does impact Test 2 and 3.

# Summary of Changes for Consideration

-  **Adding Sustainable Benefits Plan (SBP)**
-  **Proposing a framework for how SBP spending is prioritized**
-  **Scorecard language removed and replaced with SBP**
-  **Changes to Funding Objectives**
-  **Going forward, a new amortization method**

- **The following illustrations show an application of the prioritization method described in the proposed Funding Policy updates.**
  - These are illustrations only. There are many ways that benefit adjustments can be prioritized, and we know that economic conditions will not follow what is assumed. These examples are meant to build understanding of how the proposed framework could be applied in practice and should not be used for any other purpose.
- **Starting values are preliminary and will change.**

# Illustration – Assumed Returns

| Fiscal Year | Return | Budget Available | Allowable Deminimis | Spending on: |         | Strengthen Fund | Funded Ratio |
|-------------|--------|------------------|---------------------|--------------|---------|-----------------|--------------|
|             |        |                  |                     | YOS          | COLA    |                 |              |
| 2024        | 10.5%  | \$ -             | \$ 0.850            | \$ 0.849     | \$ -    | \$ -            | 82%          |
| 2025        | 7.0%   | \$ 0.6           | \$ 0.9              | \$ 0.4       | \$ 0.4  | \$ -            | 81%          |
| 2026        | 7.0%   | \$ 1.4           | \$ 0.9              | \$ 0.7       | \$ 0.7  | \$ -            | 82%          |
| 2027        | 7.0%   | \$ 1.7           | \$ 0.9              | \$ 0.9       | \$ 0.9  | \$ -            | 83%          |
| 2028        | 7.0%   | \$ 1.7           | \$ 0.9              | \$ 0.9       | \$ 0.9  | \$ -            | 83%          |
| 2029        | 7.0%   | \$ 1.8           | \$ 1.1              | \$ 0.9       | \$ 0.9  | \$ -            | 83%          |
| 2030        | 7.0%   | \$ 1.8           | \$ 1.0              | \$ 0.5       | \$ 1.2  | \$ -            | 83%          |
| 2031        | 7.0%   | \$ 1.8           | \$ 1.0              | \$ -         | \$ 1.8  | \$ -            | 83%          |
| 2032        | 7.0%   | \$ 1.8           | \$ 1.1              | \$ -         | \$ 1.8  | \$ -            | 83%          |
| 2033        | 7.0%   | \$ 1.8           | \$ 1.1              | \$ -         | \$ 1.8  | \$ -            | 84%          |
| 2034        | 7.0%   | \$ 1.8           | \$ 1.2              | \$ -         | \$ 1.8  | \$ -            | 84%          |
| 2035        | 7.0%   | \$ 1.9           | \$ 1.2              | \$ -         | \$ 1.9  | \$ -            | 84%          |
| 2036        | 7.0%   | \$ 1.9           | \$ 1.3              | \$ -         | \$ 1.9  | \$ -            | 85%          |
| 2037        | 7.0%   | \$ 1.9           | \$ 1.3              | \$ -         | \$ 1.9  | \$ -            | 85%          |
| 2038        | 7.0%   | \$ 1.9           | \$ 1.4              | \$ -         | \$ 1.9  | \$ -            | 85%          |
| 2039        | 7.0%   | \$ 1.9           | \$ 1.4              | \$ -         | \$ 1.9  | \$ -            | 86%          |
|             |        |                  |                     | \$ 5.1       | \$ 21.7 | \$ -            |              |

## Adjustments made:

- Years of service required for unreduced benefits lowered to 30
- 1-2% multiple year COLAs
- Funded ratio strengthened

*This example shows how the Funding Policy framework could be applied to make benefit adjustments given the constraints of the SBP. Dollars are in billions. Illustrative only – should not be used for any other purpose.*

# Illustration – Worse Returns

| Fiscal Year | Return | Budget Available | Allowable Deminimis | Spending on:  |               | Strengthen Fund | Funded Ratio |
|-------------|--------|------------------|---------------------|---------------|---------------|-----------------|--------------|
|             |        |                  |                     | YOS           | COLA          |                 |              |
| 2024        | 10.5%  | \$ -             | \$ 0.850            | \$ 0.849      | \$ -          | \$ -            | 82%          |
| 2025        | -6.5%  | \$ 0.6           | \$ 0.9              | \$ 0.4        | \$ 0.4        | \$ -            | 79%          |
| 2026        | -8.3%  | \$ -             | \$ 0.9              | \$ -          | \$ -          | \$ 0.9          | 68%          |
| 2027        | 1.8%   | \$ -             | \$ -                | \$ -          | \$ -          | \$ -            | 64%          |
| 2028        | 17.2%  | \$ -             | \$ -                | \$ -          | \$ -          | \$ -            | 63%          |
| 2029        | 11.9%  | \$ -             | \$ -                | \$ -          | \$ -          | \$ -            | 64%          |
| 2030        | 13.5%  | \$ -             | \$ 0.7              | \$ 0.4        | \$ 0.4        | \$ -            | 67%          |
| 2031        | 20.6%  | \$ -             | \$ 0.8              | \$ 0.4        | \$ 0.4        | \$ -            | 75%          |
| 2032        | -5.6%  | \$ 5.5           | \$ 0.9              | \$ 2.7        | \$ 2.7        | \$ -            | 74%          |
| 2033        | -22.0% | \$ -             | \$ 0.9              | \$ -          | \$ -          | \$ 0.9          | 57%          |
| 2034        | 13.5%  | \$ -             | \$ -                | \$ -          | \$ -          | \$ -            | 56%          |
| 2035        | 22.5%  | \$ -             | \$ -                | \$ -          | \$ -          | \$ -            | 58%          |
| 2036        | 1.7%   | \$ -             | \$ 0.8              | \$ 0.4        | \$ 0.4        | \$ -            | 59%          |
| 2037        | 13.5%  | \$ -             | \$ 0.8              | \$ -          | \$ -          | \$ 0.8          | 62%          |
| 2038        | 16.5%  | \$ -             | \$ 0.9              | \$ 0.4        | \$ 0.4        | \$ -            | 65%          |
| 2039        | 5.2%   | \$ -             | \$ 0.9              | \$ 0.5        | \$ 0.5        | \$ -            | 68%          |
|             |        |                  |                     | <b>\$ 6.1</b> | <b>\$ 5.2</b> | <b>\$ 2.6</b>   |              |

## Adjustments made:

- Years of service required for unreduced benefits lowered to 32
- Small permanent COLA awards made in years allowed
- Fund strengthened in years following a return below 5%

*This example shows how the Funding Policy framework could be applied to make benefit adjustments given the constraints of the SBP. Dollars are in billions. Illustrative only – should not be used for any other purpose.*



# Illustration – Better Returns

| Fiscal Year | Return | Budget Available | Allowable Deminimis | Spending on: |         | Strengthen Fund | Funded Ratio |
|-------------|--------|------------------|---------------------|--------------|---------|-----------------|--------------|
|             |        |                  |                     | YOS          | COLA    |                 |              |
| 2024        | 10.5%  | \$ -             | \$ 0.850            | \$ 0.849     | \$ -    | \$ -            | 82%          |
| 2025        | 12.3%  | \$ 0.6           | \$ 0.9              | \$ 0.4       | \$ 0.4  | \$ -            | 82%          |
| 2026        | 16.6%  | \$ 5.0           | \$ 0.9              | \$ 2.5       | \$ 2.5  | \$ -            | 84%          |
| 2027        | 12.3%  | \$ 8.6           | \$ 1.0              | \$ 1.0       | \$ 7.7  | \$ -            | 83%          |
| 2028        | 16.8%  | \$ 6.0           | \$ 1.0              | \$ -         | \$ 6.0  | \$ -            | 88%          |
| 2029        | 14.2%  | \$ 10.4          | \$ 1.1              | \$ -         | \$ 10.4 | \$ -            | 89%          |
| 2030        | 12.5%  | \$ 9.0           | \$ 1.3              | \$ -         | \$ 4.9  | \$ 4.1          | 92%          |
| 2031        | 10.3%  | \$ 12.3          | \$ 1.5              | \$ -         | \$ -    | \$ 12.3         | 99%          |
| 2032        | -6.5%  | \$ 19.0          | \$ 1.6              | \$ -         | \$ -    | \$ 19.0         | 101%         |
| 2033        | -8.3%  | \$ 4.2           | \$ 1.7              | \$ -         | \$ -    | \$ 4.2          | 89%          |
| 2034        | 1.8%   | \$ -             | \$ 1.5              | \$ -         | \$ -    | \$ 1.5          | 86%          |
| 2035        | 17.2%  | \$ -             | \$ 1.5              | \$ -         | \$ -    | \$ 1.5          | 85%          |
| 2036        | 11.9%  | \$ -             | \$ 1.6              | \$ -         | \$ -    | \$ 1.6          | 87%          |
| 2037        | 13.5%  | \$ 2.5           | \$ 1.7              | \$ -         | \$ -    | \$ 2.5          | 92%          |
| 2038        | 20.6%  | \$ 13.5          | \$ 1.8              | \$ -         | \$ -    | \$ 13.5         | 105%         |
| 2039        | -5.6%  | \$ 37.2          | \$ 2.1              | \$ -         | \$ -    | \$ 37.2         | 107%         |
|             |        |                  |                     | \$ 4.7       | \$ 31.9 | \$ 97.4         |              |

## Adjustments made:

- Years of service required for unreduced benefits lowered to 30
- 3% multiple year COLAs
- Full funding achieved in 3 out of 18 years

*This example shows how the Funding Policy framework could be applied to make benefit adjustments given the constraints of the SBP. Dollars are in billions. Illustrative only – should not be used for any other purpose.*

## Current

The ends to be achieved regarding funding are as follows:

The purpose of the policy is to state the Board's objectives for funding and to lay out clear criteria for making decisions regarding changes to funding and benefits, as well as when those changes should be considered by the Board.

## Proposed (added)

The ends to be achieved regarding **pension** funding are as follows:

### Purpose

The purpose of the policy is to state the Board's objectives for **pension** funding and to lay out clear criteria for making **and monitoring** decisions regarding changes to funding and benefits, as well as when those changes should be considered by the Board.



## Current

This statement sets forth policy and describes the organization and division of responsibilities to prudently implement the funding philosophy and objectives in accordance with Sections 3307.51 and 3307.512 of the Ohio Revised Code ("Revised Code" or "R.C.") and promotes effective communication between the Board and staff.

## Proposed (moved to beginning)

This statement sets forth policy and describes the organization and division of responsibilities to prudently implement the **pension** funding philosophy and objectives in accordance with Sections 3307.51 and 3307.512 of the Ohio Revised Code ("Revised Code" or "R.C.") and promotes effective communication between the Board and staff.



## Current

The goal is to safeguard members' benefits in the long term.

## Proposed (added)

### Goal

No change to the text, adding a heading to make it easier to read.



## Current (removed)

The funding **philosophy and objectives shall establish the framework and specific objectives to monitor the Retirement System's funding status with an intent to preserve the financial improvements realized by the passage of pension reform legislation in 2012 - Sub. S.B. 342 of the 129th General Assembly.**

## Proposed (added)

### Objective

The funding objective **is** to:

- **take steps to adjust benefits to the level prior to the adoption of measures from 2012 to 2017;**
- **while preserving the fiscal integrity of the system as determined by the Board's actuary.**



## Current Policy

### Current policy does not describe SBP:

- Doesn't give a future board direction
- ✓ Gives the most flexibility to the future board
- x Doesn't set expectations

## Adding More Detail

### Adding the SBP could be helpful:

- ✓ Provides a framework before decisions need to be made
- ✓ Communicates strategy to all members, promoting transparency and accountability
- x Hard to make it meaningful, future conditions will change

**The following five slides contain new material around the SBP**

- The purpose of these slides is to provide a starting point for the discussion**
- There are many ways that benefits can be changed going forward**
- This is a board policy and the board's input is critical**

## Current

This is new material.

## Proposed\* (added)

### Sustainable Benefits Plan

- Annually, the Board's actuary will develop a budget for sustainable benefit changes. When a budget or a de-minimis amount is available, the Board will prioritize between strengthening the fund and spending on actives and/or retirees.

*\*Illustrative – there are many ways the framework for applying the sustainable benefits plan can be structured. For discussion purposes only.*





## Current

This is new material.

## Proposed\* (added)

The following describes how this could happen. Prioritization is ultimately up to Board discretion and is influenced by current factors unanticipated by this or any framework and the balance between the overall needs of the various membership groups.

- Step 1 – Spending is allocated to reducing required years of service one year.

*\*Illustrative – there are many ways the framework for applying the sustainable benefits plan can be structured. For discussion purposes only.*



## Current

This is new material.

## Proposed\* (added)

- **Step 2 – Additional spending is allocated to a permanent COLA up to 1% and/or other retiree payments allowable under Ohio law.**
- **Step 3 – Additional spending is allocated to strengthening the fund.**
- **Step 4 – Additional spending is allocated to reducing required years of service by an additional year.**

*\*Illustrative – there are many ways the framework for applying the sustainable benefits plan can be structured. For discussion purposes only.*



## Current

This is new material.

## Proposed\* (added)

**Step 5 – Additional spending is allocated to increasing the COLA from Step 2 up to a total permanent COLA of 2%.**

**Note, at any point in the process, spending can be used to bolster the plan’s health versus being attributed to benefit changes.**

**Once 30 years of service has been made permanent, spending can be on making COLA awards, up to 3% for multiple years.**

*\*Illustrative – there are many ways the framework for applying the sustainable benefits plan can be structured. For discussion purposes only.*



## Current

This is new material

## Proposed\* (added)

**When it is determined by the Board's actuary that benefits need to be adjusted to preserve the fiscal integrity of the system, the Board will prioritize among all available options.**

*\*Illustrative – there are many ways the framework for applying the sustainable benefits plan can be structured. For discussion purposes only.*



## Current (removed)

Funding Objectives shall include:

- 100% funding
  - At **85% or greater**, the Board may consider plan changes that in the determination of the Board's actuary do not materially impair the fiscal integrity of the system.

## Proposed (added)

### Specific Objectives

**Funding objectives are taken as a whole, and individual objectives are considered to the extent consistent with other objectives.**

Funding Objectives shall include:

- **At least 100% funding over the long term**
  - At **any level**, the Board may consider plan changes that in the determination of the Board's actuary do not materially impair the fiscal integrity of the system.



## Reasons for 100%+

1. Financial stability and responsibility
2. Attracting and retaining quality educators
3. Avoiding future taxpayer burden

## Reasons for less than 100%

1. Conservative assumptions make 100% funding unnecessary
2. Trade-offs with other public priorities
3. Pensions can be funded on a pay-as-you-go basis

## Current (removed)


- **Manage** the risk of unanticipated benefit changes
- Intergenerational equity, **to the extent consistent with other funding objectives**
- Transparency and accountability

## Proposed (added)

- **Optimizing asset return volatility**
- **Managing** the risk of unanticipated benefit reductions
- Intergenerational equity
- Transparency and accountability



## Implications for lower

- ✓ Lowers the risk of not meeting expected investment returns in any given year
- x Potentially lower returns
- ✓ Helps to pass SBP Test #2 as the shock is lowered. See Illustration 

## Illustration

- SBP Test #2 assumes a shock return of two standard deviations below expected
- Assume a 7% return and 12% standard deviation

$$7\% - 2 \times 12\% = -17\%$$

- x It takes ~10 years to recover

- 
- If the standard deviation were lowered from 12% to 11%

$$7\% - 2 \times 11\% = -15\%$$

- ✓ Recovery is three years earlier



## Current (no changes)

Elements of a funding policy shall include:

- Actuarial Cost Method: entry age normal
- Asset Smoothing Method: 4-year smoothing of gains/losses in excess of assumed earnings, with an actuarial value corridor of 91% to 109% of market value

## Proposed

### Actuarial Elements

No change to the text, adding a heading to make it easier to read.



## Current (removed)

- **Funding Period Policy:** a closed funding period, starting from 30 years as of 7/1/2015, with a level percentage of payroll amortization of all UAAL.

## Proposed (added)

- **Initial UAAL:** the UAAL established over a closed funding period, starting from 30 years as of 7/1/2015, with a level percentage of payroll amortization of all UAAL.
- **New Incremental UAAL:** each subsequent valuation will produce a New Incremental UAAL consisting of all benefit changes, assumption and methodology changes and experience gains and/or losses that have occurred since the previous valuation and shall be amortized over a closed 20-year period.



## Open

**Resets each year to match the period set in the amortization policy**

- ✓ Reduces contribution rate volatility
- x Higher total cost
- x Losing popularity

## Single Layer Closed

**Unfunded liability is eliminated within a specified timeframe that declines annually by one year**

- x Contribution rate volatility, particularly toward the end of the period
- ✓ Lower total cost

## Closed Multi Layer

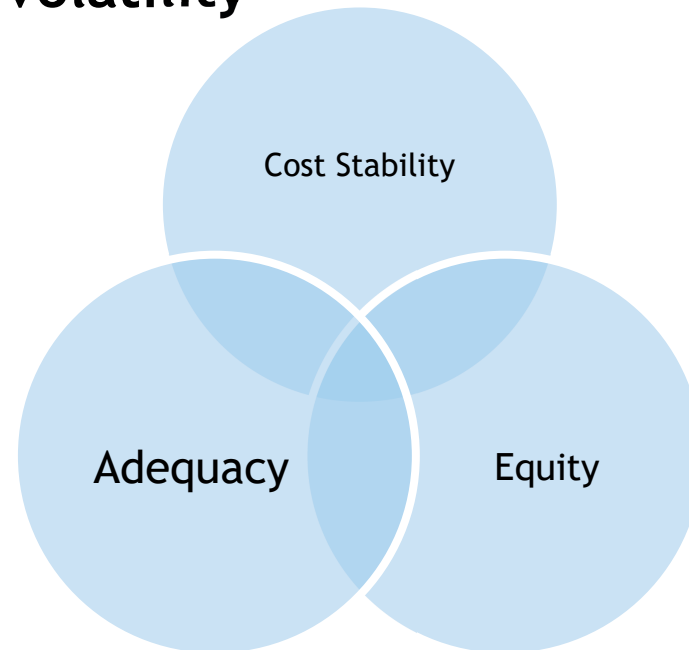
**A new amortization schedule is created for each year's actuarial experience**

## Shorter

- ✓ Lowers overall cost as liability is paid off quickly
- ✓ Good intergenerational equity
- ✗ Increases contribution rate volatility

## Longer

- ✗ Higher overall cost
- ✗ Poor intergenerational equity matching
- ✓ Low contribution rate volatility



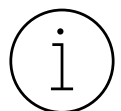
# Amortization Period – Recommendations

**ORSC:** It would be valuable for the General Assembly to consider reducing the maximum amortization funding period to something at or below 20-years<sup>1</sup>

**CCA PPC:** For gains and losses, balancing demographic matching and volatility control leads to an ideal amortization period range of 15 to 20 years<sup>3</sup>

**SOA:** Amortization of gains/losses should be completed over a period of no more than 15 to 20 years<sup>2</sup>

## Intergenerational Equity and Amortization Period



<sup>1</sup> ORSC Staff Report on the Historical Experience of the Five Ohio Retirement Systems Since 1998, April 2024

<sup>2</sup> Report of the Blue Ribbon Panel on Public Pension Plan Funding, February 2014

<sup>3</sup> Actuarial Funding Policies and Practices for Public Pension Plans, October 2014

## Current (removed)

- **Funding Period Policy:** a closed funding period, starting from 30 years as of 7/1/2015, with a level percentage of payroll amortization of all UAAL.

## Proposed (added)

- **Initial UAAL:** the UAAL established over a closed funding period, starting from 30 years as of 7/1/2015, with a level percentage of payroll amortization of all UAAL.
- **New Incremental UAAL:** each subsequent valuation will produce a New Incremental UAAL consisting of all benefit changes, assumption and methodology changes and experience gains and/or losses that have occurred since the previous valuation and shall be amortized over a closed 20-year period.



- **Scorecard language was put in place before the SBP**
- The SBP has replaced the way plan design changes are made, making the scorecard duplicative
- **Removing this language aligns the policy closer to practice**
- Eliminating statutory language and including links

## Current (removed)

On an annual basis, an actuarial valuation of the pension assets, projected liabilities and projected funding requirements of the Retirement System will be prepared by an actuary. Such valuation study shall meet all requirements of Section 3307.51(A) of the Revised Code.

## Proposed (added)

### Actuarial Valuation and Studies

All actuarial valuations, studies, and/or other analyses shall be prepared by an actuary pursuant to applicable Ohio law, and specifically in accordance with Section 3307.51 - R.C. and Section 3307.84 - R.C., as may be amended from time to time.

In addition, an actuarial review shall be conducted of the economic assumptions, including discount rate, inflation, and wage growth on an annual basis.





## Current (removed)

On an annual basis following the completion of the actuarial valuation, staff, working with an actuary, will update the funding scorecard according to the criteria set forth in the Metrics to Guide Funding Policy. Staff will update the Board of the resulting score. Should the overall score, or any of the individual metrics, fall outside the range of advisory levels established by the Metrics to Guide Funding Policy, the Board will either initiate action to mitigate this risk or approve a written statement explaining why mitigation is not considered necessary, possible or desirable at that time.

## Proposed

This material is being removed.



## Current (removed)

On an annual basis, to assist the Board's interpretation of scorecard results and to facilitate consideration of actions that may be necessary to meet funding objectives, STRS Ohio staff and an actuary will prepare a sensitivity analysis detailing the projected impact of a range of possible plan design changes.

## Proposed

This material is being removed.



## Current (removed)

At least once in every quinquennial period, an actuarial review shall be prepared by or under the supervision of an actuary to update the actuarial assumptions used in the annual actuarial valuation study. Such review shall comply with the requirements set forth in Section 3307.51(B) of the Revised Code. The review will include demographic factors, such as the mortality, service and other experience of the members, retirees and beneficiaries, as well as the economic experience of the Retirement System.

## Proposed

This material is being replaced by the language above.



## Current (removed)

At intervals determined by the Board, an actuarial study shall be prepared to assess the negative financial impact, if any, on the defined benefit plan resulting from participation of members in the defined contribution plan. Such review shall comply with the requirements of Section 3307.84 of the Revised Code.

## Proposed

This material is being replaced by the language above.



## Current (removed)

**As necessary, an analysis shall be prepared under the supervision of an actuary of any introduced legislation expected to have a measurable financial impact on the Retirement System. Such review shall comply with the requirements of Section 3307.51(D) of the Revised Code.**

## Proposed

This material is being replaced by the language above.



## Current

This is new material.

## Proposed (added)

### Appendix

### Sustainable Benefits Plan

The following describes the Sustainable Benefits Plan fiscal integrity tests developed by Cheiron in 2023. It is included here for reference only and is subject to change at any time by Cheiron.



## Current

This is new material.

## Proposed (added)

The SBP consists of three fiscal integrity tests to evaluate whether a change may materially impair the fiscal integrity of the System. The tests currently are:

1. Do contributions exceed treadwater by a 20% margin?
2. Will contributions exceed treadwater within 5 years after a shock investment return?
3. Is there an 80% probability that contributions will exceed treadwater in 10 years?





# Questions?

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# Board Policies Discussion

Aug. 15, 2024

## Background – General Discussion

- Three categories of policy updates:
  - Approved policies
  - Pending policies
  - Policies for discussion with new governance consultant

**Today's goal:** To assess current state and update Board Policies with all approved changes made to date

## **Board Policies was last updated in November 2023 (Robert's Rules)**

- Four new committee charters were approved by the board in May
- A policy was verbally approved at the May meeting related to removal of the board chair and/or vice chair
- At the June meeting, the board approved a new policy to elect chair and vice chair
- The Ohio Administrative Code rule effectuating the elimination of Final Average Salary Committee was effective June 13, 2024
- Several draft policies discussed with Aon are pending approval
- Other proposed policies are pending (i.e., special meeting)

**In June, we discussed a review of pending items at the August Governance Committee meeting**

- **Policy changes needing no action today**
  - Committee charters: Audit, Investment, Governance, Legislative
    - Approved May 2024
  - Removal of chair/vice chair
    - Approved May 2024
  - Chair/vice chair election
    - Approved June 2024

## Policy changes requiring action today (nine sets of changes)

1. Cover page – addition of the statement: “Board Policies must be reviewed and approved by the board at least every four calendar years”
2. Page 3 – Member Benefits Ends – Remove references to “CEM” and “long term care”

### Optional Programs

Periodically review the optional programs provided by STRS Ohio. These optional programs currently include health care, dental care and vision care ~~and long term care~~.

### Services

... The delivery of quality customer service and its costs will be measured using ~~through tools such as the CEM survey~~ data, member surveys and the associate performance management program or equivalent mechanisms

### 3. Pages 11-12 – Board Member Education – staff title updates

Change “~~General Counsel~~” to “Chief Legal Officer”

Change “~~Retirement Board Liaison~~” to “Executive Coordinator”

4. Page 20 – Board majority approves committee composition and each committee elects its own chair; change “appoint” to “elect”

The chair may also ...

d. Name ~~Assign~~ Board members to committees and the Disability Review Panel, subject to approval by a majority of the Board. And Each committee shall elect ~~appoint~~ the its own chair ~~of each committee/panel~~ and all Board members (appointed or elected) are eligible to serve as committee chairs.

e. Establish ad hoc committees as needed. The composition of such committees will be determined by the Chair, subject to approval by the majority of the Board.

- 5. Page 23 – Update committee names and composition for consistency with new charters**
- 6. Page 24 – Update list of committees to reflect the four board approved committees: Audit, Investment, Governance, Legislative**
- 7. Remove charters for Health Care, Staff Compensation and Benefits and Final Average Salary Committees (no longer exist) – Pages 25-39 will include the four approved charters and remove the three charters listed here**



8. Page 50 – Monitoring Executive Performance – include language to send ORSC reminder letter one year in advance of fiduciary and actuarial audits.

In addition to the monitoring set forth in this policy, pursuant to Revised Code Section 171.04, the Ohio Retirement Study Council at least every ten years shall conduct an actuarial review and fiduciary performance audit of the Retirement System. ~~(The last fiduciary audit was performed in 2006 and the last actuarial audit was performed in FY2008 and reported in November 2009).~~ Staff shall track the statutory review cycle and issue a courtesy letter to the Ohio Retirement Study Council one year in advance of the required actuarial review and fiduciary performance audit.

9. Page 62 – Position title update

Change “~~Retirement Board Liaison~~” to “Executive Coordinator”

- **Special meeting policy**
  - Introduced in June 2024 – needs further review
- **Mission, vision and guiding principles**
  - Board approved in March 2023; board indicated earlier this year that further discussion is needed
- **Service provider referral policy**
  - Recommended by Funston and Aon as a best practice – needs further review
- **Governing style – norms for deliberation/removal of one voice**
  - Recommended by Funston and Aon – needs further review
- **Officers, term of office duties – handling of questions and future agenda topics**
  - Recommended by Aon – needs further review
- **Delegation to the Executive Director – process for questions**
  - Recommended by Aon – needs further review

- **The Governance Committee should make policy recommendations to the board for its approval**
- **Board Policies will be updated with all changes approved by the board to date**
- **Any outstanding board policies and future proposed changes can be reviewed in more detail with the new governance consultant**

# Questions?

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