



# Pension Funding of Member Benefits






## Policy Updates

Oct. 16, 2024

Board input gathered and incorporating changes in the proposed funding policy



# Summary of Proposed Changes

-  **Adding Sustainable Benefit 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**

**Goal** – The goal is to safeguard member’s pension benefits in the long term

**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

## **Sustainable Benefit Plan**

- Framework added that prioritizes among actives, retirees and strengthening the fund
- Fiscal integrity tests added to the appendix for ease of finding

**Links to the full Funding Policy are included in the agenda topic**



# Questions?

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**POLICY TYPE: ENDS**

**POLICY TITLE: *PENSION FUNDING***

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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.

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.

Goal

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

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.

Sustainable Benefit 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.

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
- 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
- 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.

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.

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

#### Actuarial Elements

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
- 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
- Note: Section 3307.512 – R.C. reflects the current statutorily required amortization period

#### 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.



## APPENDIX

### Sustainable Benefit Plan

The following describes the current Sustainable Benefit Plan fiscal integrity tests developed by Cheiron in 2023. They are included here for reference only and are subject to change at any time by Cheiron.

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



# Governance Consultant Review

Oct. 16, 2024

- In May 2024, an RFP was issued for a new board governance consultant to assist with recommendations related to Board Policies, strategic planning, education and enterprise risk management
- In June 2024, proposals were received from six potential consultants
- In August, the Governance Committee heard presentations from three potential consultants: Segal, Hackett Group (Hackett) and Global Governance Advisors (GGA)
- Last month, the committee requested that staff follow up with GGA regarding costs and Hackett regarding costs and references

- **Due Diligence information from last month is linked to the agenda and includes information related to references, ORSC feedback, cost clarification, potential conflicts of interest and other relevant information**
- **Information from staff follow up since the September meeting is contained in a separate Due Diligence document (Part 2), as well as summarized on the following slides**

**Hackett provided a flat fee proposal of \$385,000 per year in its RFP response. Travel expenses are included in the flat fee as well as the hourly rate for projects outside of the scope. Estimated hours are contained on the following slide.**

## **Per initial follow up with Hackett**

“The flat fee represents what we determined would be the amount of time to provide the anticipated services - the personnel engaged and their hours. So, for the services and scope outlined in the RFP, the flat fee of \$385,000 was based on the hourly allotment of our consultants/personnel using the blended rate of \$325. All expenses are included in this flat fee. For this engagement, the preferred method is flat fee billing. For out-of-scope services requested, page 10 (next slide) provides the rate we would bill. The rates are fully loaded - that is to say, travel and out of pocket expenses are included in the hourly rate.”

## **Per second follow up with Hackett -**

“The hourly rate would supersede all. And, if hired, we would develop a scope with milestones. If fewer hours are required based on a more limited scope - then, of course, the fee would be less.”

# Costs – Hackett *(continued)*

Name	Rate	Estimated Annual Hours
<b>Toni Hackett Antrum, MBA, Series 50, Series (Municipal Advisory Principal) Fiduciary Training and Education, Investment Policy Development</b>	<b>\$350/hr</b>	<b>200 hrs.</b>
<b>Lori McKnight, CFA, MBA</b>	<b>\$350/hr</b>	<b>200 hrs.</b>
<b>Chris Tobe, CFA, CAIA, MBA</b>	<b>\$350/hr</b>	<b>200 hrs.</b>
<b>Alexander Antrum, Senior Analyst Series 53 (Investment Advisor Representative)</b>	<b>\$200/hr</b>	<b>200 hrs.</b>
<b>Anita M. Tillman</b>	<b>\$250/hour</b>	<b>300 hrs.</b>
<b>Bernard Robertson</b>	<b>\$300/hour</b>	<b>200 hrs.</b>

- **GGA provided a proposed fee structure with a preliminary base fee estimate of \$110,000 for year one, in addition to actual out of pocket expenses (to be paid in accordance with the STRS Ohio Travel Policy). GGA prefers a fixed fee structure and would work with STRS Ohio to mutually agree upon a project scope, work plan, and budget for the services.**
- An estimate of the anticipated cost to complete defined phases of the work is provided in the table on the next slide and all timelines would be mutually agreed to in advance of the commencement of the outlined work.

# Costs – Global Governance Advisors *(continued)*



Project Phase	Estimated Fees
Governance Structure, Roles, Policies & Procedures	\$24,000
Strategic Plan Review & Update	\$40,000
Additional Policy Development	\$5,000 to \$20,000/Policy
Meeting Attendance	\$560/hr Virtual Attendance \$600/hr In-Person Attendance
In depth - Self Assessment Process & Education Plan (Year 1)	\$46,000
Light – Self Assessment Process & Education Plan (Years 2 & 3)	\$18,000
Governance Resource	\$560/hr
Cooperative Commitment	Ongoing



- **Hackett initially provided three references:**
  - Maryland State Retirement System-responded but was for audit work completed more than five years ago
  - Nashville & Davidson County Metropolitan Government Employee Benefit Trust Fund – did not respond to two emails and one phone message
  - CalSTRS – did not respond to two emails and one phone message

- **Upon follow up, Hackett submitted the following entities and references were obtained from:**
  - Nashville & Davidson County Metropolitan Government Employee Benefit Trust Fund
    - Reference for policies, practices & procedures review
  - Virginia School Board Association
    - Reference for public relations work (Anita Tillman, AmCORP)
  - Ethics Review Board-City of New Orleans
    - Reference for ethics training

- **Due Diligence (Part 2) contains the following:**
  - Updated cost information from Hackett and GGA
  - Reference information for both Hackett and GGA
  - Public Records documents – communications from a member of the Hackett Group



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# November Board Education & Planning Session

Oct. 16, 2024

- **Each year the board holds a Board Education & Planning Session in November in place of a regular board meeting**
- **While there may be some board business to address, the primary goal is to schedule educational topics of interest to the board**
- **Per the updated Governance Committee Charter, the committee is now in charge of coordination of ongoing board education**
- **Some topics will be delayed until the new governance consultant is selected by the board**

- **Annual Fiduciary & Governance Training**
- **CEM Benchmarking (Pension Administration)**
- **Cheiron – Lever Report**
- **Actuarial – Member Security**
- **Board Policies**
- **Stakeholder Engagement Task Force**
- **Employer Contribution Rate Increase Coalition**
- **Asset Segregation: Operational Implications**

- **Strategic Planning**
- **Board Self-Assessment**
- **More In-Depth Board Policy Review**





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