

April 29, 2024

The Honorable Mark Romanchuk
Senate Building
1 Capitol Square
Columbus, Ohio 43215

Dear Chairman Romanchuk:

We want to thank the ORSC for developing the report on the Historical Experience of the Five Ohio Retirement Systems since 1998 and providing a thorough account of how Ohio's public pension funds have faced recent challenges and continue to provide a reliable retirement for Ohio's public employees. There are a few points from the report on which I would like to comment.

STRS Ohio has followed the direction of the legislature to adjust benefits and contributions in order to maintain the solvency of the retirement system, and to ensure that the basic benefits as described in the Ohio Revised Code will be paid to all members when due. Following the benefit increases in the late nineties and the subsequent two economic downturns, this solvency was challenged. Additionally, demographic changes have had an impact on the system. In 1993, STRS Ohio had 2.2 active teachers participating for every beneficiary paid from the fund. Thirty years later, this had declined to 1.1 active teachers for every beneficiary. This means that currently the fund pays out \$3.4 billion more in benefits than it receives in member and employer contributions. Projections show the active teacher to beneficiary ratio remaining around 1 to 1 for the foreseeable future.

Absent additional funding, the only way for the STRS Ohio board to preserve the viability of the system was through significant and painful plan changes. Returns on investments alone could not address a funding gap of this magnitude; indeed, as the ORSC report points out, STRS has achieved remarkable returns. This is of little consolation to a membership that has seen higher member contributions, increases to retirement eligibility requirements and decreases to benefits. For STRS Ohio this meant not only the cuts collectively agreed-upon as part of the pension reform process, but unlike the other Ohio pension systems, a second substantial cut to future COLA increases in 2017.

The benefit cuts and the strong investment returns over recent years have gone a long way towards addressing past shortfalls and STRS Ohio is on the path to recovery and financial resilience. However, our current financial position does not reflect future COLA increases or other steps towards restoring some of the benefits cut in the recent past. The fund is not yet in a place to be able to reliably commit to such increases; only additional time or additional funding can bring these desired changes.

As the report notes, STRS Ohio's unfunded liability has been greatly reduced since pension reform. In fact, STRS Ohio has had the largest reduction in unfunded liabilities of all five retirement systems since pension reform. It's important to keep in mind that this decrease was due to benefit reductions for both retired and active teachers and increased member contributions; employers were not asked to make any additional contributions at that time. The employer rate is currently the second lowest among states where teachers are not covered by Social Security, while Ohio's teacher contribution rate is the third highest among those states.



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It is also important to note that the path of STRS Ohio fund recovery is a strategic effort, designed to ensure continued strength and resiliency. Over the past twelve years, assets have steadily increased, and outside audits, including that of the Auditor of State and the fiduciary audit commissioned by the Council, confirm that the system is well managed. We are going to be asking the Ohio General Assembly to consider legislation that will raise the contribution rate for employers and are actively meeting with members of the General Assembly to secure co-sponsors for our employer contribution increase. The proposed legislation will increase the employer contribution rate from 14% to 18%, phased in over eight years. We think increasing the employer contribution rate will significantly contribute to the resiliency of the fund and allow the Board to consider benefit improvements sooner than would otherwise be possible.

We are continuing an enhanced outreach program to engage with our membership. Town Hall style presentations started last year, and we have conducted eleven events in various locations across Ohio so far. In addition to a short presentation, we listen and learn from our members and welcome their questions and comments. We look forward to partnering with our members on the proposed increase to the employer contribution rate.

One final issue I would like to point out is retiree health care. Even though health care is discretionary, the board and legislature have recognized that health care is a valuable benefit in retirement. This has guided the decision the board made to allocate funding to health care in the past. Prudent management of the health care fund has resulted in the health care fund currently being over 100% funded despite the board committing all funding to the pension fund since 2015. Realizing the importance of the core pension benefit, STRS Ohio has proactively managed its health care fund to be self-sustaining without any further diversion of funds from the pension fund.

Again, we want to thank ORSC for this historical report on the public pension systems. This information will help your colleagues in the General Assembly, our stakeholders, and Ohioans to better understand the public pension systems and their role in providing retirement security for Ohio's over two million active, inactive, and retired public employees.

Sincerely,

A handwritten signature in black ink, appearing to read "Lynn Hoover".

Lynn Hoover
Acting Executive Director