

Ohio SERS Pension Fund Sustainability Initiative

July 17, 2019 Board Retreat POP and Agenda

Purpose of the July 17 Pension Retreat

Launch a board process investigating opportunities to strengthen the Ohio School Employees Retirement System's ability to deliver and sustain secure retirements for future generations of school employees. Begin raising questions that will be answered through the iterative investigation of sustainability as outlined in SERS Strategic Plan Goal 1.

Outcomes of the Initial Session

By the end of this session, the board will have:

1. Launched the SERS Board Pension Sustainability Initiative as described in the Strategic Plan (below).
2. Started establishing a common definition of a "sustainable" pension system.
3. Experienced new board tools, processes, and structures to help board members bring their best and most creative thinking to the initiative.
4. Strengthened the board's ability to work together, investigate, and analyze complex issues involved in creating a sustainable retirement system.
5. Started to shape the first and subsequent phases of the pension initiative.

Agenda and Process for the Pension Session

Note: please review Facilitator's Interview Report and ED Memo on Pension Plan Elements in advance.

Introductions and Context – SERS Board Chair and Executive Director

Working Together on the Sustainability Initiative – Board and Facilitators

- Somatic Exercise to Orient Board to Today's Work
- Review session:
 - Outcomes
 - Agenda
 - Facilitation approach

Interview Report Back – Board and Facilitators

- Facilitator's Report included in Board Packet
- Board Members Answer Question About What they Learned During Interviews

Start Establishing What Board Members Mean When Using Term Sustainability – Board and Facilitators

- Small Group Discussions and Report Out

Prioritize Topics for Investigation during Fall Phase of Initiative – ED, Board and Facilitators

- ED Memo on Pension Plan Elements to Investigate included in Board Packet
- Consensus Process to Prioritize Elements to Investigate

Reflections on the Session – ED, Board and Facilitators

- What Worked Well?
- Additions and changes for the Next Session?

SERS Strategic Plan Goal #1 – Pension Fund Sustainability: Our pension fund is designed to be sustainable and adaptive to meet the needs of members, employers, and retirees.

Staff responsibilities Strategy 1.0: Assist the Board in identifying plan design features that are sustainable, meet the recruiting and retention goals of employers, and provide value to members and retirees.

- Action 1.1: Establish metrics for data collection from members and employers that help better inform the plan design and communicate the value of the plan.
- Action 1.2: Conduct periodic comparative analyses of pension and benefit plan designs and provide information to the Board inclusive of comparative analysis findings, actuarial studies, and membership demographics.
- Action 1.3: Work with the Board to develop a common definition of “sustainability” that will aid in planning efforts.
- Action 1.4: Evaluate any proposed plan changes to ensure regulatory compliance.

Potential Topics for Exploration, Research and Dialogue in the SERS Sustainability Initiative

Pension systems around the world are confronted with a variety of complex issues in working to provide sustainable retirement benefits for their members. The first step in assessing the many economic, financial, demographic, and plan design options that pension systems are investigating and adopting to meet the evolving environment is to prioritize the topics the SERS board will investigate. In this document the facilitators have summarized a comprehensive staff assessment of potential topics to study as a first exploratory phase of the Pension Sustainability Initiative.

Our goal in this retreat session is to prioritize which topics members of the SERS Board believe will be most helpful to them in understanding how to help make SERS more sustainable. Then, over time, staff and outside experts will work with the executive director and facilitators to help board members explore and dialogue about potential paths to sustainability. These potential topics to explore are presented in random order for you to consider.

- **What is the current state of SERS and what does that mean for a sustainable future?**

By exploring the current goals of the SERS pension plan and the statutory and regulatory environment in which it operates, this topic will help assess the concepts of shared risk, the current human resource needs of employers, and the impact of current levels of funding and benefit formulas on sustainability.

- **How do the many forms of risk involved in providing retirement benefits impact sustainability?**

By investigating actuarial analyses of risks that may be reasonably assumed to significantly impact the plan's future financial condition, this topic will help anticipate future risk scenarios and possibilities based on the best available projections and current analytic assumptions. Among the topics to be researched are investment risks, liquidity risks, demographic risks, interest rate risk, and plan maturity risks.

- **How do current actuarial assumptions impact our vision of the future?**

By looking at SERS current assumptions about investment returns, member longevity and mortality, wage growth, and work force growth, this topic will help analyze how variable outcomes on key assumptions will impact the funded status, funding period, and overall pension plan in the future.

- **What will be the impact of changes in Ohio demographics on our educational system?**

By exploring Ohio population trends and projections for the coming decades, this topic will help create a picture of potential changes in the school work force and assess the potential retirement needs of employees. Among the trends to be explored are the potential impact of demographic changes on how many students there will be, how school systems are financed and structured, and how education might be delivered in various future scenarios.

- **How does pension system cash flow impact the ability to provide sustainable benefits?**

The basic formula for retirement benefits is contributions plus earnings results in benefits. By looking at how a variety of financial and demographic factors can impact cash flow in a pension system, this topic will help assess the impact of those changes on daily operations and their impact on sustainability.

- **What type of plan changes have other systems made or are proposing to make themselves more sustainable?**

Many pension systems have made or are considering changes to their benefit plans in an effort to improve sustainability, including changes to contribution rates, vesting periods, age and service requirements, disabilities, and cost of living allowances. By studying what other systems have done to strengthen their systems and the ramifications of specific changes, this topic will help assess the impacts and limitations of plan modifications.

- **What possible new pension plan designs have other systems made or are exploring to make themselves more sustainable?**

Around the globe, public and private sector retirement systems are experimenting with new pension plan designs and methods for sharing risk. By investigating what pension systems have tried or are considering in a variety of situations, including variable contribution rates, cash balance and hybrid plans, contingent cost of living plans, tiered benefits, and other concepts, this topic will help assess the impact of various emerging designs in specific environments.

Summary of Ohio SERS Pension Fund Sustainability Board Member Interviews Completed June 28, 2019

Introduction

Interview Purpose in Light of Strategic Goals

Lincoln Crow Strategies works with the Ohio SERS board and staff in developing a road map to implement Goal #1 of the SERS Strategic Plan on Pension Fund Sustainability: "Our pension fund is designed to be sustainable and adaptive to meet the needs of members, employers, and retirees." The first step is an assessment of board members' expectations, aspirations, and vision of the sustainability initiative.

Interview Process

We completed telephone interviews with all eight current board members between Monday, June 24 and Thursday, June 27, 2019. Each interview was between 40 and 55 minutes. We started with the following core questions:

1. Describe your vision of the Pension Fund Sustainability Initiative?
2. What key elements need to be investigated to consider pension fund sustainability?
3. What is one thing you wish for related to how the board approaches this initiative?
4. What is the single biggest challenge you anticipate the board will need to address in order to develop and agree on a successful vision?
5. Is there anything else you want to tell us about how you want the initiative process to work?

Based on the first two interviews we added three subsequent questions:

6. Are there any areas of pension fund sustainability that should not be discussed?
7. How should the board members best be involved in the development of the sustainability dialogue process?
8. What do you view as success for the initiative?

Interview Outcomes

Our desired outcomes for the interview process were to:

- Capture board expectations and aspirations for the Pension Fund Sustainability Initiative
- Introduce board members and the facilitation team to each other
- Inform an agenda for the Pension Fund Sustainability initiative component of the board retreat
- Provide a brief report back to the board on the collective response to the interviews.

We were successful in introducing the facilitation team to all current board members and look forward to continuing the board outreach to build stronger relationships with current members and to meet new members as they are appointed.

This document captures our report back by outlining the questions, aspirations, and recommendations raised by board members at the commencement of the initiative process. The responses of board members have also informed our initial recommendations for structuring the overall initiative process which are at the end of this document, and have shaped our initial draft of the agenda for the July 17 initiative retreat which is being forwarded separately.

Overview of Board Responses

There is strong consensus among board members the current SERS model of retirement benefit provision is not as robust as they would like nor is it sustainable with the current membership demographics and investment outlook. Board members agree that undertaking this Pension Fund Sustainability Initiative is a critical discussion to pursue and that board members have the collective capacity to effectively engage in what they anticipate will be difficult conversations about future options. There is, however, also strong consensus that members will be challenged to move there discussions of sustainability beyond the current issues confronting the board. Board members hope the facilitators and staff can help them to achieve a perspective allowing a rigorous dialogue about how SERS can provide retirement security into the next century if not longer. This concern was raised as both an issue of pacing of the initiative process and the ability of board members to adequately prepare and reflect on individual issues or topics to be discussed.

Board members are aware they bring a variety of biases to the table. Many noted there are significant challenges to overcome in order to hold an open and candid dialogue in a public forum. Several noted that under current board practices, group discussions can get off topic, or can last longer than productive, even when there is agreement on an issue. While ideas on how to keep discussion on track were generated, there were few suggestions about how to help forge a common vision for assessing sustainability. However, board members expressed confidence that with effective facilitation, rigorous analyses, transparent process, and a disciplined structure for the initiative, board members can come to a collective decision on creating a path toward sustainability. There was optimism that while a decision making process might not result in unanimity, the board would stay united in their diversity in order to support a collective path to sustainability.

Board members are looking forward to working with facilitators who can help shape their investigations and give structure to the ongoing dialogue. They expressed a desire and willingness to set a pace for the dialogue that allows everyone the time and support to be prepared for investigating the topics or elements that contribute to sustainability. Board members described an effective process as one encouraging all members to speak up and express their informed opinions so that the best possible solutions can emerge from the dialogues. At the same time, board members said there needs to be a strong effort to engage, educate, and seek well considered input from SERS stakeholders to assure all constituencies have an opportunity to understand the issues and express their thoughts. They commented that recent stakeholder outreach efforts were an effective starting point for engagement, but they could be strengthened through techniques such as encouraging stakeholders to make presentations on key topics and asking board members to meet with stakeholder groups.

Assessment of Board Responses

The facilitation team, Michael Perri and Michele Berry of Lincoln Crow under the leadership of Richard Stensrud of Ohio SERS, is charged with helping the SERS Board Members in achieving Goal 1, Strategy 1.0 of the SERS Strategic Plan: “Assist the Board in identifying plan design features that are sustainable, meet the recruiting and retention goals of employers, and provide value to members and retirees.”

That includes at least the following action steps:

- “Action 1.1: Establish metrics for data collection from members and employers that help better inform the plan design and communicate the value of the plan.

- Action 1.2: Conduct periodic comparative analyses of pension and benefit plan designs and provide information to the Board inclusive of comparative analysis findings, actuarial studies, and membership demographics.
- Action 1.3: Work with the Board to develop a common definition of “sustainability” that will aid in planning efforts.
- Action 1.4: Evaluate any proposed plan changes to ensure regulatory compliance.”

In our initial interviews, board members raised significant questions. The process of answering those questions and others that emerge as the board proceeds to investigate the possibilities of sustainability are the core work of the initiative. The iterative process of developing answers is a guide for the facilitation team to formulate tools, techniques, and structures needed to complete the action steps and achieve strategy 1.0. We will continue to add to, refine, and answer the questions on this list as we launch the initiative and start the process of answering the questions at the board retreat in July.

We have grouped the board questions raised so far under four broad categories in the section on critical questions below. The questions concerning technical issues will be more fully addressed in a segment of the July retreat that will help to prioritize the initial research to be developed for the initiative process. Our focus in this analysis section is on the implications of what the interviews revealed about board dynamics, the initiative process, and stakeholder outreach for launching the Pension Fund Sustainability Initiative.

Board Dynamics

The SERS board has a long and successful history. There are strong traditions and mores about how to work together collectively as fiduciaries in the best interests of the plan members. By raising so many significant questions at the beginning of the initiative process, the board members demonstrate the power of those traditions and the very healthy shared uncertainty about how to proceed. By raising more questions than providing answers, board members indicate their openness to developing new methods of interacting and to changing board dynamics in order to encourage generating new questions and finding answers they do not yet anticipate.

Board members need to continue to be actively involved in shaping every step of the initiative process including stakeholder engagement. To help board members better achieve their desired outcomes the facilitators and staff will work with them to ensure they have a dedicated and supportive space for considering sustainability, the information and tools to enhance their communication and decision making skills, and the encouragement to strengthen their ability to discuss complex, ambiguous, uncertain, and volatile issues.

Initiative Process

Because board members are committed to finding new ways to expand their ability to envision a more sustainable pension future, the process of the Pension Fund Sustainability Initiative needs to build on the past history of effective board decision making while exploring new methods for working together and considering options. They do not want to limit the topics or issues they can explore, but they recognize that there are laws and political realities beyond their control. They want to draw on the expertise of staff and other specialists, but clearly want to draw their own conclusions rather than be given prescriptions. And they want to work efficiently, but also take the time to fully understand the

data and information needed to assess sustainability. By working in phases and exploring both data and scenarios the facilitators hope to help shape a process that meets those needs.

Stakeholder Outreach

Secure retirements require a high level of partnership among plan sponsors, employer members, and employee members. Each partner has important roles and responsibilities in sustaining the system that delivers benefits. Board members recognize that effective engagement with all stakeholders is a critical component of the initiative process. All of the Goal 1, Strategy 1.0 action steps have implications for and need input from all stakeholders in order to best assess the potential impact of any sustainability proposal.

Board members recommend, and the facilitators agree, that a significant component of the Pension Fund Sustainability Initiative is an active, rigorous, and transparent engagement with stakeholders. The goal of stakeholder outreach should be to foster a two-way dialogue that enhances the investigations and analyses being undertaken by the board so that sustainability recommendations reflect the long-term interests of stakeholders and not the concerns of the last quarter, year, or economic cycle.

Aspirations for and Goals of the Initiative

There is diversity about how board members describe the goals of the initiative process, but a great deal of consistency in asserting the desire for a process considering the long term health of the pension system and not a short term or incremental effort at reform. While board members used different words to describe concerns about the impact of potential changes on plan members, there was universal concern that the current membership's needs must be taken into consideration as they map a plan forward for SERS and the provision of sustainable benefits to future members.

Among the articulated goals were:

- "This is not for us. We need to be looking 30 years down the road. How do we make the fund sustainable if our model today is not sustainable?"
- "If we were going to create something new today, if we were to remove all preconceived notions, what would we be doing as a fund?"
- "If we had a blank piece of paper how would we structure a plan to assure the fund is available for future employees?"
- "We need to find a way to make an impact on our funded ratio and keep this fund sustainable for future members. We have to make some hard decisions."
- "What are the changes we can make in the fund to reverse or slow down our negative cash flow?"
- "This needs to be an open forum so that experts do not cloud people's thinking with their preconceived ideas."
- "Everything should be on the table, we can't rule out anything."
- "Change is always hard. We need to approach this on a global level and not let our individual concerns dominate our thinking."
- "Ideally we need to figure out how to fund all pensions and health care, but clearly there are challenges to that."
- "We need to make a plan that is not just for the 30 years we might be in the system but for a long time into the future."

- “No rock should be left unturned. We have to look at every aspect of the plan. There can be no sacred cows.”
- “I am for health care sustainability, but the pension is the key – we are a pension system.”
- “I am looking forward to examining all the tough questions.”
- “We have to find ways to present some hard information to our members.”

Critical Questions Raised During the Interviews

Board members raised many significant questions. The greatest proportion of questions focused on technical issues the initiative will confront in the first two phases of the work as described in the recommendations below. These questions can be addressed iteratively during the course of the initiative, need to be raised consistently through the process, and need to be addressed with the best available data in order to provide a common body of knowledge for evaluation.

The other questions raised focused on how the overall initiative process should work, how to help create a healthy board dynamic that encourages open dialogue, and ideas about how stakeholder outreach can be more effective. The collective thinking on how to address those three areas in the short term are captured in the two recommendations sections below and in the draft agenda for the July retreat.

Questions raised during the interviews include:

Clarifying Technical Issues

1. How can we best assess dynamic changes in the economy and demographics of Ohio?
2. What is the role of outside actuaries?
3. Who is charged with developing bench marks or systems to measure success?
4. Can and should we consider household income in thinking about potential benefit formulas?
5. Can and should we be more granular in analyzing demographics so that we consider differences by classification or job title as well as other dimensions?
6. Can we discuss joining social security?
7. What are differences in benefit averages for represented and unrepresented members?
8. What are differences in benefit averages for careers with greater job mobility and for those with limited career ladders?
9. How does social security (especially the offset windfall) impact the shape of potential future benefits?
10. How do we balance the need for healthcare benefits and the need for retirement benefits?
11. What evidence or data do we need to make it clear to stakeholders that while this is a long term process we need to take the first steps now so that we have a plan to get to sustainability?

Clarifying the Initiative Process

12. How do we want to define the parameters of our discussions?
13. What are the most important issues or topics to discuss?
14. Should we study scenarios or just look at data and information?
15. How are staff involved and how does the process assist everyone in getting beyond their own self-interest?

16. What will be the pace of the initiative, how often and how much time will be dedicated to this process?

Clarifying Stakeholder Engagement

17. How do we engage stakeholders most effectively?
18. How do we continually educate members on the issues we consider as we undertake the sustainability dialogue?
19. What is the role of board members in public outreach?
20. Can we encourage well thought out input from stakeholders?
21. Should we reach out and attend stakeholder meetings or focus on engaging with leaders of stakeholder groups?

Clarifying Board Dynamics

22. How does the board collectively define sustainability?
23. Should the sustainability dialogue to be limited to what is currently permitted under state law?
24. What is the role of board members in developing the process of the initiative?
25. How is the initiative process different from reform efforts like the COLA suspension?
26. Does the board need structure and ground rules to keep the sustainability dialogue on track?
27. How do we help board members with less financial experience to better utilize whatever professional advice we receive?
28. What techniques or tools will help board members to better achieve a long-term perspective?

Board Recommendations for Developing the Initiative Process

- Make sure the process is driven by the board and executive director not outside experts
- Employ the round table technique utilized during the COLA outreach efforts
- Have board members take responsibility for helping to educate the members
- Utilize SERS communications staff to help with outreach
- The board needs to begin the process of creating a common working definition of pension sustainability
- Consider finding new ways of getting stakeholder input such as asking them to make presentations
- Find ways to ask questions that draw people out
- Make sure people have enough time to get familiar with material so that all members can participate
- Make sure the impact of social security is clear to everyone
- The SERS staff needs to become the primary source of data, information, and analysis with help from outside experts when needed

Facilitator Recommendations for Developing the Initiative Process

- The agendas for the board retreat and subsequent meeting need to reflect that this initiative is different from the regular work of the board and requires a more focused and disciplined approach in order to keep an open mind needed to discuss difficult issues and build consensus.

- Developing a common board definition of sustainability will be an iterative process and needs to be raised immediately and then refined as the board investigates the key elements or topics of a sustainable pension system
- The entire initiative is an iterative process requiring repeated rounds of analysis, dialogue, and refinement to investigate and consider all issues and options for sustainability
- An iterative process requires board members to engage with each other in different formats than they have in the past including small groups discussions, consensus decision making, solo and collective reflection, and other activities
- Along the way the board members will need to utilize new tools, develop and strengthen interpersonal and analytic skills, test and improve their ability to recognize and reveal their biases, and enhance their ability to think about the future free from the current concerns of the pension system
- While the board develops a common definition of pension sustainability we should consider at least four stages for the initiative to achieve goal 1, strategy 1.0
 - Phase 1 – Investigation of Key Elements of Pension Sustainability
 - Phase 2 – Analysis of A Variety of Scenarios based on those Key Elements
 - Phase 3 – Articulate Potential Steps SERS can take to Achieve Sustainability
 - Phase 4 – Prioritize Steps to Sustainability for Staff Work on Proposed Action Plan
- While work on Goal 1, Strategies 2.0, 3.0, and 4.0 will likely proceed simultaneously with the initiative, the SERS Board decisions about how those strategies and actions are achieved is beyond the scope of the sustainability initiative
- Develop a comprehensive public outreach plan to engage all stakeholders, solicit their input and opinions, and educate them on the issues that will help make Ohio SERS sustainable for future generations of school employees
- Balance technical explanations from staff and other experts with an open dialogue by board members to examine the implications of information on issues that can lead to sustainability