October 9, 2017

A special meeting of the Retirement Board of the School Employees Retirement System was held in the boardroom at 300 E. Broad Street, Columbus, Ohio, on Monday, October 9, 2017. The meeting convened in open session at 8:37 a.m. and continued with the Pledge of Allegiance. Following the Pledge of Allegiance, roll call was as follows: Daniel Wilson, Chairperson, Jeffrey DeLeone, James Haller, Christine Holland, Catherine Moss, Barbra Phillips, Beverly Woolridge and James Rossler. Also in attendance was Mary Therese Bridge, representative of the Attorney General, various members of the SERS staff, and members of the public.

Board Chairman Daniel Wilson called the meeting to order for the discussion and vote as to the Cost of Living Adjustment (COLA) plan for SERS' retirees and benefit recipients. Mr. Wilson asked those guests in attendance who requested to speak regarding the COLA plan to come forward and asked that comments be kept to two minutes.

Valerie Rodgers, Executive Director for the School Employee Retirees of Ohio, Inc. (SERO), thanked the Board for the opportunity to speak and noted that SERO continues to support the proposed changes to the COLA. She further stated that SERO understands that this is a very important and a decision which should be made today. Ms. Rodgers stated that SERO is willing to work with SERS through this process.

Deidra Reese, on behalf AFSCME Ohio Chapter 1124, acknowledged the difficult decisions being considered by the SERS Board and the need to make those decisions; however, she wished to note that AFSCME members are not in support of either option, and are opposed to the option of the seven year COLA plan.

Madonna (Dee) Faragher, former SERS Board member, stated that the SERS Board has worked on this issue for two and a half years. She asked that the Board vote for a three-year COLA suspension, as it is her belief this option is in the best interest of the system, its active members and retirees.

Barbara Catalano, Ohio Education Association – Retired, expressed support for the taking action on a COLA plan.

COLA DISCUSION

Continuing, Mr. Wilson asked Executive Director Richard Stensrud to begin the discussion.

Mr. Stensrud stated that he and John Garrett, Actuary, Cavanaugh Macdonald, would be guiding today's discussion. He further noted the addition of materials distributed to the Board as requested by Board member, Beverly Woolridge: 1) Illustration of the history and cost impact of the previous fixed 3% COLA versus CPI-W calendar year averages capped at 2.5% and a floor of zero; 2) SERS' COLA and Ad Hoc history and; 3) OPERS Board discussion of items for changing the COLA at OPERS Mr. Stensrud noted that the fundamental objectives of the COLA plan previously identified by the Board are to: (a) Immediately improve the funded status of the pension fund to greater than 70%; (b) Establish a sufficient margin over 70% to enhance long term sustainability and provide downside protection from volatile investment markets; (c) Help the fund stay above the 70% funded status level for as long as possible in order to allow continued funding to flow to and extend the life of the health care fund; and (d) Accelerate the point when the pension fund is projected to achieve a funded status of 90%. Mr. Stensrud further noted that SERS' Funding Policy prohibits any contributions being diverted from basic benefits to health care unless the basic benefits are at least 70% funded.

Mr. Stensrud and Mr. Garrett noted that approximately 60% of the accrued liability is for retired members and beneficiaries, and 40% of the accrued liability is for active members and deferred vested members which is why, after consideration of multiple options, the Board had focused on the COLA in seeking to achieve its funding objectives.
Mr. Stensrud explained that absent any other action, pursuant to House Bill 49, the COLA is indexed to the annual percentage change in CPI-W, with a cap of 2.5% and a floor of 0%. This represents a change from what the COLA had previously been. Mr. Stensrud noted that the failure to adopt a COLA for 2018 will result in the COLA being 0% in 2018. Mr. Stensrud and Mr. Garrett explained that under HB 49 without any suspension of the COLA, the System will achieve 70% funded status in 2020 and 90% funded status in 2035 and that no portion of the employer contribution would go to health care for three more years.

Continuing, Mr. Stensrud and Mr. Garrett discussed two COLA plan options before the Board. Under a three-year temporary suspension of COLAs beginning in 2018, the funded status of the pension fund as of June 30, 2017 is projected to be approximately 71.1%. As noted, this will permit a portion of the employer contribution to be allocated to the health care fund in fiscal year 2018. A three-year temporary suspension is also projected to achieve other fiscal objectives identified (a margin above 70%, an extended duration above 70%, and accelerated progression toward 90% funded status).

Mr. Stensrud described an alternative to a three-year COLA suspension that would achieve the same fiscal objectives, through a different and longer path. Under this alternative, The COLA reduction plan would last for seven-years and there would be an annual COLA during that period, but it would be the annual percentage change in the CPI-W or 1%, whichever is lower. Mr. Stensrud and Mr. Garrett noted that while this approach provides the same funded status results as a three-year COLA freeze, the longer duration of the COLA plan presented some potential negative aspects that should be taken into consideration. .

In summary, under HB 49 without any suspension of the COLA, the pension fund will achieve 70% funded status in 2020 and 90% funded status in 2035. No portion of the employer contribution would go to health care for three more years.

Under HB 49 with a three-year temporary suspension of the COLA for all retirees and benefit recipients for CY 2018, 2019, and 2020, or a seven-year COLA capped at the lesser of the annual percentage change in CPI-W or 1%, the pension fund will achieve 70% funded status in FY2017 and 90% funded status in FY 2032. A portion of the employer contribution may be allocated to health care in FY 2018.

Mr. Stensrud noted that an element of the COLA plan approved by the Board in 2016 – a three year delay in the start of COLAs for new retirees – was not currently included in either proposed COLA plan. He explained that additional legislative authorization would need to be obtained to add a delay in the start of the COLA to the proposed three year suspension of the COLA. He further noted, however, that a similar outcome would be achieved for the next two years under the three year suspension alone. Mr. Stensrud explained that if the seven year COLA plan was adopted, it may not be necessary to delay the start of the COLA for new retirees to achieve parity between active and retired members, but that further analysis would be required to confirm that.

Mr. Garrett explained that if a COLA plan is adopted, SERS' actuary will be able to incorporate the provisions of the plan into the actuarial valuation as of June 30, 2017. If the plan allows the funded status of the pension fund to reach or exceed 70% as of June 30, 2017, a portion of the employer contribution can begin moving into the health care fund in the 2018 fiscal year. No decision will result in no COLA in 2018, but the fund would still be below 70%.

Mr. Stensrud and Mr. Garrett noted that the projected funded status levels under any COLA plan can and will be impacted by future investment returns. They also noted while the proposed COLA plan options will strengthen the pension fund, it is important to remember that pension sustainability is an ongoing objective and future events, such as investment performance or actuarial assumption changes, may make it necessary to consider additional or different measures from those identified in the proposed COLA plans to help keep the fund sustainable.

Following the discussion, Board member Jeffrey DeLeone thanked staff and stakeholders for their commitment to this issue. Mr. DeLeone also commended his colleagues.

Chairman Wilson asked if there were any additional comments for discussion. Board members Catherine Moss and Beverly Woolridge expressed concern that a three-year temporary suspension, with no delay in the start of the COLA upon retirement would not impact active members in the same manner as current retirees.

SERS COLA SUSPENSION/DELAY

It was moved by Jeffrey DeLeone and seconded by James Rossler that:

- pursuant to the authority provided by R.C. 3309.374, and as supported by SERS' actuary Cavanaugh Macdonald, no cost-of-living adjustments will be provided for any SERS allowance, pension or benefit for calendar years 2018, 2019 or 2020; and

- staff seek legislation amending R.C. 3309.374 to provide that allowances, pensions or benefits that commence on or after the effective date of the legislation shall be eligible to receive a cost-of-living adjustment on the fourth (4th) anniversary date following commencement of the allowance, pension or benefit. If R.C. 3309.374 is not amended in such a manner, the Board requests authority to determine the number of allowance, pension or benefit anniversaries required to be eligible to receive a cost-of-living adjustment.

Upon roll call, the vote was as follows: Yea: James Rossler, Jeffrey DeLeone, James Haller, Christine Holland, Barbra Phillips and Daniel Wilson. Nay: Catherine Moss and Beverly Woolridge. The motion carried.

ADJOURNMENT

Daniel Wilson moved that the Board adjourn to meet on Thursday, October 19, 2017 for their regularly scheduled meeting. The meeting adjourned at 9:39 a.m.

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Daniel Wilson, Board Chair

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Richard Stensrud, Secretary