

Report of STRS Board of Directors Meeting, November, 2009

The State teachers Retirement Board of Directors met on November 19th and November 20th, 2009. Items for the agenda included reports from the Investment Department, from the Human Services Department and from the Executive Director. The Friday meeting concerned presentations to the Long-Term Fiduciary and Financial Contingency Planning.

As previously reported, STRS submitted Board recommendations to the Ohio Retirement Study Council, ORSC, along with four other state pensions. The purpose of these recommendations was to make each pension financially solvent. Those pensions incurred significant losses in the recent economic crisis. STRS has received a copy of the draft bill language that will become part of the Ohio Revised Code, section 3307. STRS staff is reviewing the language of the bill while Executive Director Mike Nehf and the Governmental Relations staff continue to meet with legislators and stakeholders about the importance of the bill.

McLagan Reports on Compensation Study for Investment Staff

In September, the Board voted to adopt changes to the 2010 Performance Based Incentives (PBI) Program that include the following: No incentives will be paid during a year in which the total fund does not achieve a positive absolute return. Incentives will be reduced by 3% for each billion that the total fund is below \$65 billion at the end of any fiscal year. Furthermore, each eligible associate's earned award will be increased by 8% if the total fund's absolute return exceeds 8.5% and the net relative return exceeds 60 basis points but less than 100 basis points; or, increased by 12% if the total fund's absolute return exceeds +8.5% and the net relative return equals 100 basis points or more. Finally, the number of eligible associates in the PBI plan has been reduced to 80 from 90.

McLagan was asked by STRS to help review and analyze compensation for investment staff. McLagan studied comparative pay combinations of base salary and pay incentives in order to recommend appropriate compensation to investment staff. While compensation for STRS investment staff is currently focused at the lowest 25th percentile of the private sector market, the current economic crisis has prompted many investment employers to re-evaluate compensation. McLagan presented findings that recommended a reduction in incentive pay for eligible Investment Department associates, by lowering the maximum PBI payments. For the December meeting, the Board will be presented a motion to:

1. Approve the recommendation that for the PBI eligible associate compensation, STRS Ohio target the median compensation of a blended peer group weighted 50% to large/leading public funds and 50% to national private sector firms.
2. Approve the new, lower maximum incentive levels by position, which will be reflected in "schedule A" of the fiscal year 2010 PBI plan.

If that motion is approved, the total PBI opportunities will decline by 13% or 2.8 million for the fiscal year 2010.

Investment Report Shows Improvement

The Investment Department presented a more positive look at STRS investment returns, noting that at October 31st, the assets were \$57.4 billion, an increase from \$52.6 billion in June of 2009.

The Board voted to maintain the 5% annual interest rate on money purchase benefits and re-employed retiree annuities for 2009-2010. Interest rates for 2009-2010 on member withdrawals shall continue at 2% for members with less than three years credit, and 3% for members with three or more years of service credit.

Long Term Fiduciary and Financial Planning Studies Possible Changes

The Long-Term Fiduciary and Financial Planning Committee received presentations from staff concerning possible plan design changes. They include the following, verbatim in the presentation:

- Cost of Purchase of Service Credit – Require members to pay projected liability created by the purchase of private, out of state teaching, prior military service, and Ohio non-contributing teaching.
- Eligibility for Disability Benefits – Tighten up the eligibility requirements to receive disability benefits and subsidized health care for new disability recipients and limit the amount of credit given when members return to work once they are no longer disabled.
- Eligibility for Survivor Benefits – Increase service requirement from 1.5 years to 5.0 years of earned Ohio service for survivor benefit eligibility for new members, and reduce the time period survivor benefit eligibility continues from 27 months to 12 months after last date of service for new members.
- Service Credit 120 day rule (requested by ORSC) – Eliminate current provisions that allow members to earn 1.00 year of credit for working 50-67% of a year. Require members to work the complete academic year to receive a full year of service credit.
- Service Retirement money purchase and \$86 per year calculation – Eliminate the money purchase calculation for service retirements. Eliminate the \$86 per year calculation.
- Death Benefit – Discontinue the STRS Ohio funded death benefit of \$1000 for new service retirees and disability recipient

(It is noteworthy that the above changes are only part of discussion at this time. Comments from individual Board members indicate a reluctance to support some of these.)

Election of STRS Active Member Seats

Election will take place this year to fill 2 seats on the STRS Retirement Board. The 2 seats are those representing active members. Petitions for these seats are due by 4:30 on February 26, 2010.