HPA/STRS report, OSURA Board, 12 February 2019. G. Newsom

An interesting illustration of the trade-offs between average investment return and risk was provided by the STRS health-care fund. Consultants project the chances the fund would run out of money in future decades with investment portfolios that had varying degrees of expected return and volatility. Compare low-risk, neutral-weight, and high-risk plans, which have expected mean annual returns of 4.1%, 7.3%, and 11.2% respectively, with corresponding volatilities of 3.5%, 14.4%, and 25.9%. After 30 years, the chances that these three plans would run out of money are 3%, 12%, and 17% respectively; the low-risk plan looks like the way to go. But after 60 years, the chances become 95%, 32%, and 27%, just the opposite order of the 30-year comparison. What happens is the low-risk plan, with low returns, slowly drains the fund in the first decades, until the fund gets small enough (after 30 years) that investment returns become much less than costs and the fund is rapidly depleted (before 60 years). It's almost guaranteed.

With a high-risk fund, chances are the fund will continue to grow in value, but the uncertainly is huge. Returns could be much higher than needed to sustain the fund, but the fund could also run out of money in a few decades. The CFO for STRS recommends the neutral weight, safer in the 30-year time frame than the high-risk plan, and not all that much worse than the high-risk plan after 60 years.

STRS made a presentation to ORTA (Ohio Retired Teachers Association) in October, explaining projected cash inflows and outflows in the pension fund. Considering how ORTA has been arguing for reinstating the COLAs, it apparently was sobering to the audience that, even without reinstated COLAs, there was a 30% chance of the funding ratio falling below 50% in the next 10 years. (Decreases in the stock market in December likely made things look even worse at the end of 2018.)

Aetna, which provides health insurance for most STRS retirees, has merged with CVS. No merger of the customer services functions of Aetna and CVS has taken place and retirees seem unlikely to see any changes in 2019. Down the road, the expectation is CVS should have better leverage for negotiating drug prices and retirees should have better access to more services through CVS Health's MinuteClinics.

Legislative report

The Ohio Retirement Study Council (ORSC), which oversees the five public retirement systems in the state, has been chaired by Rep. Kirk Schuring (he was Interim Speak of the House after Cliff Rosenberger resigned). Traditionally, the chair position alternates between a Representative and a Senator, so in 2019 a Senator should become chair. However, Schuring was term-limited so last November he ran and was elected to the Senate (again), so he is likely to continue as chair of ORSC.

On the national front, the committee (which includes both Ohio's Senators) to find a solution to the multiemployer private pension funds failed to meet its November 30 deadline. STRS is monitoring the committee activities, out of concern that any action it recommends might affect the public pension funds in Ohio.