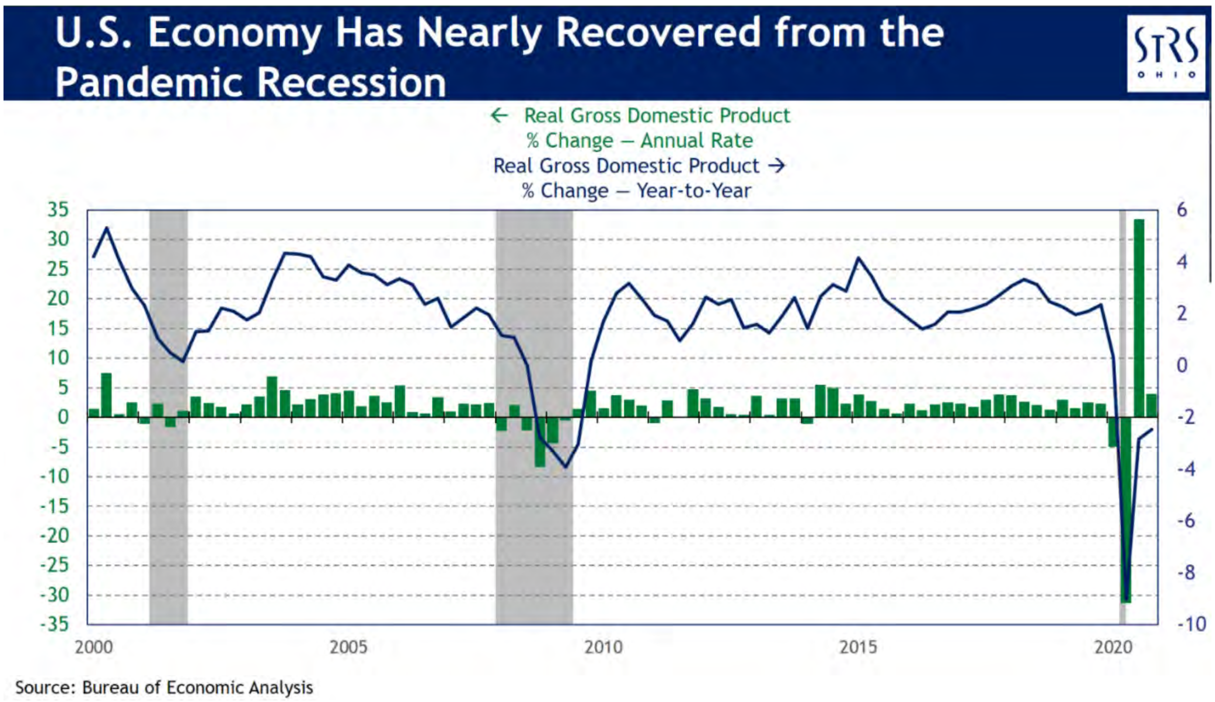
STRS report for the OSURA Board, March 2021. Jerry Newsom.

STRS

STRS investments returned 12.26% for the calendar year 2020, thanks to a strong 15.98% return in the second half of the year. Assets are up $9.2 billion so far in this fiscal year. The investment staff expect strong returns to continue for the next year or so. The GDP is nearly back to where it was before the pandemic hit, as shown on the graph below. The green bars show the change in GDP for each quarter (reported as an annual return) and the blue line compares the GDP at any time compared to what it was a year earlier.



At their February meeting, the STRS Board heard a detailed discussion of the many different risks the system faces (such as not having adequate liquid funds on hand each month to pay pensions). Each risk was categorized by how serious it would be ("Impact"), how likely the bad event is to happen ("Probability"), and if it's a near-term or distant threat ("Timeframe"). For each risk, tools were discussed that can mitigate the risk. They identified a total of 32 risks and 15 mitigation tools.

The class-action lawsuit filed a couple years ago to declare the suspension of COLAs illegal is apparently still pending in Federal court. More recently, ORTA (the Ohio Retired Techers Association) has raised funds to hire a "forensic audit" of STRS. A forensic audit is an examination of an organization's financial records to find evidence that could be used in a court of law or legal proceeding.

Each state pension system is supposed to have periodic audits and that's coming up for STRS. The state Auditor selects the auditing firm and STRS staff recommended two firms (Crowe LLP and Plante Moran) as good choices.

Additions Years Ended June 30, 2020 and 2019 (dollar amounts in thousands)	2020	2019	Percentage Change
Member contributions	$ 1,670,406	$ 1,623,095	2.9%
Employer contributions	1,706,961	1,656,132	3.1%
Health care premiums and government reimbursements	377,655	397,630	−5.0%
Other contributions	39,288	46,022	−14.6%
Net investment income	2,832,376	5,092,217	−44.4%
Total additions	$ 6,626,686	$ 8,815,096	−24.8%

Deductions Years Ended June 30, 2020 and 2019 (dollar amounts in thousands)	2020	2019	Percentage Change
Benefits (includes optional health care)	$ 7,513,655	$ 7,529,221	−0.2%
Refunds	270,573	258,354	4.7%
Administrative expenses	68,019	66,469	2.3%
Total deductions	$ 7,852,247	$ 7,854,044	0.0%

A summary of income and expenses for FY 2019 and 2020 is given at left. Expenses are much more stable than income, so are much easier to predict. The return on investments is not only the largest source of income on average, but it is also by far the most volatile.

National news

Many states have severe problems with their pension funds because when government budgets were tight, the state and local governments did not make their mandated payments into the pension systems. That happened a lot in the 2008-09 Great Recession, but it did not happen nearly as much in the recent sharp downturn.

Retirements from CalPERS (for public employees) were the same in 2020 as in 219, but retirements from CalSTRS was up sharply. Why did so many teachers retire? For 56% of the new retirees, part of the reason was the challenges of teaching during the pandemic; 35% said they did not want to continue working remotely and 35% did not want to risk being exposed to COVID-19. Ohio isn't seeing such a surge, in part because there aren't as many teachers eligible to retire in our state.

Attacks on DB plans continues in other states. A Florida Senate committee approved a proposal to require all new state employees to enroll in a 403(k)-style plan. The Senate Majority Leader in North Dakota supports the same proposal. In Kentucky, a bill advancing in the legislature would put new hires in a hybrid pension plan. In everybody's horror story, Illinois, a local school board hit on a plan to make matters worse, a collective-bargaining agreement giving teachers 6% annual increases in their last four years of service, thereby upping their final average salary and costing the retirement systems (and ultimately the taxpayers) to pay more for pensions.