Oct. 2, 2024

It is hard to believe football season is here again and kids and teachers have returned to school. As I reflect over the past several months, we value the time spent with members and have learned so much from our conversations. Understandably, one of the most frequent questions we get asked is why STRS Ohio cannot offer an ongoing and repeating cost-of-living adjustment (COLA). This is a complex topic, but I will do my best to explain.

We understand inflation and changes in economic realities have affected a number of you; many retirees are frustrated and do not understand why the STRS Ohio Retirement Board does not simply reinstate the annual COLAs. Under Ohio law, neither the Retirement Board nor staff can make benefit changes without approval from the board's actuary, who has determined that the fund cannot afford an annual repeating COLA at this time. STRS Ohio has become a fiscally stronger fund and there is a clear path to future COLAs for retirees and benefit changes for active teachers through the system's sustainable benefit framework.

Let me explain why and how Ohio law changed more than a decade ago and the direction the system is headed. In the late 1990s, when the system was almost fully funded, the board approved, and the Legislature enacted major benefit improvement packages for all educators. Unfortunately, the early 2000s saw a major stock market downturn and the Great Recession began in 2008. These severe declines in the market, coupled with the benefit improvements from the 1990s, meant the Legislature and board had to make some changes or STRS Ohio would eventually be unable to pay benefits.

Here are some other important facts about our system:

- STRS Ohio's demographics have shifted from more than two active teachers per retiree in 1994 to nearly a 1:1 ratio now. This greatly affects our cash demands as we pay out approximately $7.2 billion in pension benefits while receiving $3.8 billion in contributions each and every year. The difference is covered by earnings on investments.
- People are living longer and that's great news! As a result, STRS Ohio will pay out approximately $15 billion more over this longer lifespan on retiree benefits than 40 years ago.
- Many other states have an employer contribution rate that **increases** during market downturns. Ohio has a fixed employer contribution rate, and this rate has been the same since 1984, regardless of fluctuating market conditions. We are working with the Ohio legislature to discuss this issue and introduce a bill to increase the employer rate.
- For the 20-year period through June 30, 2024, our total investment returns (after all fees) ranked **higher** than 98% of the other public pension systems in the country. Without this exceptional performance, it would be even longer before ongoing and repeating COLAs could be resumed.

Here is the key takeaway: while STRS Ohio's assets for the pension plan are currently $86 billion,* the system's liabilities — the value of benefits already accrued — are even larger, around $108 billion. For context, STRS Ohio's annual operating budget — including all wages, benefits and operating expenses — totals $0.1 billion.

The STRS Ohio board and staff would love to be able to resume ongoing and repeating COLAs, but the current excess of liabilities

over assets makes that out of reach at this point. An ongoing 3% COLA like we used to have would cost an extra $21 billion, way beyond what the actuary says is currently sustainable. The board's actuary has determined that granting an ongoing and repeating 2% COLA would add $14 billion to STRS Ohio's liabilities. These are not one-time costs; they are additions to our liabilities based on permanently increasing benefit payments to eligible retirees over their lifetime.

In 2017, when the board made the difficult decision to reduce COLAs to zero, it pledged to revisit the issue in five years. True to that commitment, a sustainable benefit plan was created with the board's actuary, which allowed the board to grant a permanent 3% COLA beginning in fiscal year 2023 and a permanent 1% COLA beginning in fiscal year 2024 for eligible retirees. Active teachers have also seen positive benefit changes under this plan.

Looking forward, the board and staff are committed to working diligently to review benefit changes in a sustainable manner while preserving financial security for members. Every single year, the board and staff review with the board's actuary whether COLAs and other benefit changes can be considered. We are reinforcing the need for an increase to the employer rate in productive conversations with legislators and stakeholders.

On a personal note, you may have heard that I will retire in December. I consider the opportunity to work on behalf of Ohio's teachers as one of my life's greatest honors. Please rest assured the STRS Ohio team will continue to provide Ohio's public educators a foundation for your financial security.

Thank you for all that you do.

Lynn Hoover
Acting Executive Director
STRS Ohio