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February 20, 2017

Ms. Helen Ninos
Interim Executive Director
School Employees Retirement System of Ohio
300 East Broad Street
Columbus, Ohio 43215

Re: SERS Cost-of-Living Adjustment (COLA) Changes

Dear Helen:

We are writing to provide our actuarial analysis of the proposed SERS COLA changes as approved by the Board of Trustees.

The Board has made two significant changes to improve the funded ratio of basic benefits. First, the Board adopted a revised funding policy that recognizes the need to strengthen the funded ratio of basic benefits before enhancing the health care fund. (Pertinent language from the funding policy is shown in Appendix A.) Second, the Board has proactively elected to pursue additional legislated pension reform (i.e., COLA changes) with an effective date of January 1, 2018. Elements include:

- Prospectively reducing the COLA from a fixed 3.00%, to one that is indexed to CPI-W not greater than 2.5% with a floor of 0%.
- Retirement allowances or benefits that commence on or after January 1, 2018 will receive the first COLA on the fourth anniversary date following commencement of the retirement allowance.
- No COLA will be applied for three consecutive years to a retirement allowance or benefit that commences before January 1, 2018, with such suspension beginning January 1, 2018, and payment of COLAs resuming on anniversary dates on and after January 1, 2021.

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If the COLA changes had been enacted as of June 30, 2016, they would have had the following impact:

	(1) June 30, 2016 Valuation	(2) June 30, 2016 COLA Changes
Present Value of Future Benefits	\$22,151,866,144	\$20,801,423,920
Present Value of Future Normal Cost	(2,381,158,023)	(2,237,885,410)
Actuarial Accrued Liability	\$19,770,708,121	\$18,563,538,510
Actuarial Value of Assets	13,179,618,602	13,179,618,602
Unfunded Actuarial Accrued Liability	\$6,591,089,519	\$5,383,919,908
Statutory Funding Rate	24.00%	24.00%
Total Normal Cost Rate	10.73%	10.11%
Employee Contribution Rate	(10.00)	(10.00)
Employer Normal Rate	0.73%	0.11%
Employer Statutory Contribution Rate		
Normal Rate	0.73%	0.11%
UAAL Amortization Rate	12.87	10.52
Total Rate	13.60%	10.63%
Funded Ratio	66.66%	71.00%
Funding Policy Contribution Rate	14.00	13.50
Amortization Period	28 Years	28 Years

Basic Benefits Impact

The COLA changes would have reduced the unfunded actuarial accrued liability by \$1,207.2 million, and increased the funded ratio from 66.66% to 71.00%.

Health Care Impact

Per the revised funding policy, this improvement in the funded ratio would also have provided additional funding for health care. The additional .50% of payroll would have increased the health care fund's solvency period by two years.



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The undersigned is a member of the American Academy of Actuaries and meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Sincerely,

A handwritten signature in blue ink that reads "Todd B. Green" followed by a horizontal line.

Todd B. Green ASA, FCA, MAAA
Principal and Consulting Actuary



Appendix A

Pertinent language from the funding policy:

If the funded ratio for basic benefits is less than 70%, the entire 14% employers' contribution shall be allocated to SERS basic benefits. If the funded ratio is greater than or equal to 70% but less than 80%, at least 13.50% of the employers' contribution shall be allocated to SERS basic benefits, with the remainder (if any) allocated to health care. If the funded ratio for pension benefits is greater than or equal to 80% but less than 90%, at least 13.25% of the employers' contribution shall be allocated to SERS basic benefits, with the remainder (if any) allocated to health care. If the funded ratio is 90% or greater, health care may receive any portion of the employers' contribution that is not needed to fund SERS' basic benefits.