BD5-011

SERS Funding Policy

Effective Date:	11/21/1997	**Revision Date:**	06/18/2015	**Audience:**	Everyone
Owner:	Board	**Certifier:**	Lisa Morris	**Co-Owner (s):**	None
Document Links:	Policy, Procedure, Definitions, Related Documents, Policy History				

Policy

I. Purpose.

The purpose of this Statement of Funding Policy is to describe the funding philosophy and objectives of the Retirement Board of the School Employees Retirement System of Ohio (Board). This Statement sets forth policy and describes the organization and division of responsibilities to prudently implement the Board philosophy and objectives in accordance with sections 3309.21 and 3309.211 of the Ohio Revised Code. It also establishes the framework and specific objectives to monitor the System's funded status and to promote effective communication between the Board and SERS staff.

II. Background.

The School Employees Retirement System of Ohio (SERS or System) was initially established by the Ohio Legislature to provide retirement and disability benefits for all non-certificated persons employed by Ohio's public schools. This purpose is sustained by the member and employer contributions, and the return realized from investment of those contributions.

The System is governed by a nine-member Board, including four members elected by the general membership (those who contribute to SERS), two members elected by the retirees and three members with investment expertise appointed by the governor, treasurer of state and the legislature. The Board is responsible for managing the System in accordance with Chapter 3309 of the Ohio Revised Code, and establishing the employer and employee contribution rates (sections 3309.49 and 3309.47, respectively) in accordance with section 3309.21.

III. Funding Philosophy.

The Board realizes that its primary responsibility is to assure that, at the time benefits commence, sufficient funds will be available to provide retirement, disability and survivor benefits along with Medicare B reimbursements and lump sum retiree death benefits (collectively, “SERS’ basic benefits”) for the System's members. The Board also recognizes that the law governing SERS’ financing intends the contribution rates to remain approximately level from generation to generation (a level percentage of payroll.)

Finally, the Board is cognizant of the necessity to balance the needs of System members for proper funding of SERS’ basic benefits with the desire to receive, where possible, an appropriate level of retiree health care coverage.

IV. Funding Objectives.

In defining funding objectives, the Board seeks to enhance the soundness of the System in order to balance as efficiently as possible the affordability and adequacy of the retirement benefits and health care coverage provided to System members. To that end, the Board establishes the following funding objectives:

1. The program of retirement benefits at SERS reflects that primary consideration is given to the career school employee. The accumulation of assets shall be for the purpose of funding retirement benefits for members who commit a significant portion of their working lives to an educational institution. Members who do not qualify for a retirement benefit shall be entitled only to a refund of their employee contributions.

2. The System shall amortize its unfunded actuarial accrued liability over a closed period of time, decreasing one year with each annual actuarial valuation. However, the Board may approve a flat or increasing amortization period over the short term if necessary to meet the goals of affordability and adequacy of retirement benefits and health care coverage. The Ohio Revised Code section 3309.211 establishes a 30-year maximum amortization period.

3. The Board seeks to maintain a funded ratio, that percentage of actuarial accrued liabilities covered by actuarial assets, of at least 90% within the amortization period defined in Section IV B. If the funded ratio is less than 70%, all 14% of the employers’ contribution shall be allocated to SERS’ basic benefits. If the funded ratio is 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 the Health Care Fund. If the funded ratio is 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 the Health Care Fund. If the funded ratio is 90% or greater, the Health Care Fund may receive any portion of the employers’ contribution that is not needed to fund SERS’ basic benefits.

4. After satisfying objectives B. and C., above, and while maintaining its funding philosophy of annually reducing the amortization period, the Board may choose to pursue any of the following objectives:

    a. To improve the funded ratio of the System;

    b. To achieve a 20-year solvency period for the Health Care Fund;

    c. To propose legislation that provides for affordable benefit enhancements for active members and/or retirees; or

    d. To reduce employee and/or employer contributions.

V. Responsibilities.

In order to implement this Statement of Funding Policy, the following responsibilities are delineated:

1. To the Board.

    a. After consultation with the Actuary, the Executive Director and SERS staff, the Board will determine the economic assumptions and actuarial funding method and establish the non-economic assumptions used in the annual actuarial valuation.

    b. Where possible and when appropriate, the Board will provide statements of policy to direct and focus the activities of SERS' staff and outside consultants.

2. To the Staff.

    a. In accordance with the Board's statements of policy, SERS' staff will implement the Mission of SERS: To provide pension benefit programs and services to our members, retirees, and beneficiaries through benefit programs and services that are soundly financed, prudently administered and delivered with understanding and responsiveness.

    b. The SERS Executive Director or, in the absence of the Executive Director, the Deputy Executive Director, will report to the Board annually on SERS' actions and activities in carrying out the Board's funding policies and directives, and more often, as necessary, when Board action may be required under the terms of this Policy.

   c. The staff is responsible for providing the Actuary with timely and accurate information regarding SERS' members, retirees and the benefits provided by SERS.

3. To the System Actuary.

   a. In addition to preparing the various reports required by law, the Actuary will assist the Board and SERS' staff by providing education and insight regarding effective administrative practices within the community of public pension plans.

   b. When requested, the System Actuary will assist in SERS' strategic planning by identifying emerging trends pertaining to benefits and health care.

VI. Review and evaluation.

In order to establish appropriate and effective policy, and to maintain the efficient, ongoing administration of the System, the System will employ the services of a qualified actuary who will prepare, at a minimum, the following:

A. Annual Reports

   a. Basic Benefits Actuarial Valuation.
   b. Gain/Loss Analysis of Financial Experience of Basic Benefits.
   c. Basic Health Care Actuarial Valuation.
   d. Report on the solvency period of the Health Care Fund.

B. Five-Year Experience Study

VII. Health Care.

Access to health care is provided in accordance with section 3309.69 of the Ohio Revised Code, and is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. The System's goal is to maintain a health care reserve account with a 20-year solvency period in order to ensure that fluctuations in the cost of health care do not cause an interruption in the program. However, during any period in which the 20-year solvency period is not achieved, the System shall manage the Health Care Fund on a pay-as-you-go basis.

The Ohio Revised Code permits SERS to offer access to health care to eligible individuals receiving retirement, disability, and survivor benefits and to their eligible dependents. Health care coverage may be changed at any time, resulting in adjustments in the required funding of the health care program.

Included within the aforementioned employer contribution is a surcharge determined in accordance with Ohio Revised Code section 3309.491. The surcharge is levied against employers whose employees earn less than a specified minimum salary. In order to avoid shifting an onerous financial burden to our members and retirees, the employer surcharge will continue to be an important source of health care revenues.

HISTORICAL REFERENCE

- RESOLUTION Approved by SERS Board at the November 21, 1997 Board Meeting
- Re-affirmed at the December 17, 1998 Board Meeting
- Re-affirmed at the April 19, 2000 Board Meeting
- RESOLUTION Approved by SERS Board at the September 19, 2008 Board Meeting
- RESOLUTION Approved by SERS Board at the December 16, 2010 Board Meeting
- RESOLUTION Approved by SERS Board at the June 18, 2015 Board Meeting

Procedures **None**

Definitions

Amortization: The process of decreasing or accounting for an amount over a period of time.

Closed Period Amortization: A specific number of years that is counted down by one each year, and therefore declines to zero with the passage of time. For example if the amortization period is initially set at 30 years, it is 29 years at the end of one year, 28 years at the end of two years, etc.

Five-Year Experience Study: A review of the differences between actuarial assumptions used in the valuation of the plan and actual experience over a five-year period, with the goal of examining trends related to actual experience and making a recommendation to change assumptions if necessary.

Funded Ratio: The ratio of the actuarial value of assets to the actuarial accrued liability.

Solvency Period: The period of time over which an organization has the ability to pay obligations. For example, the Health Care fund maintains a goal of a 20-year solvency period. This means it is the goal to maintain a balance in the fund that is sufficient to cover 20 years of expected health care expenses.

Unfunded Actuarial Accrued Liability: The difference between the expected pension obligation for existing members, as determined by an actuary, and the actuarial value of the

Related Documents and Information

Statutes:	3309.21, 3309.211, 3309.47, 3309.49, 3309.491, 3309.69
Rules:	N/A
Document Links:	Policy, Procedure, Definitions, Related Documents, Policy History

Forms: ---

Policy History

Version1 – November 21, 1997 – Created – Approved by Board
Version 2 – December 17, 1998 - Re-affirmed - Approved by Board
Version 3 - April 19, 2000 – Re-affirmed - - Approved by Board
Version 4 – September 19, 2008 – Edited – Approved by Board
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