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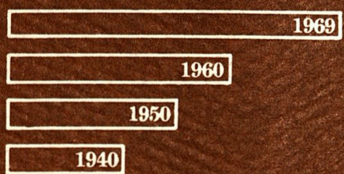
Annual Report 1969

STRS
1920

MEMBERS



the State Teachers Retirement System of Ohio

275 E. Broad Street, Columbus, Ohio 43215

1585
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1969

THE STATE TEACHERS
RETIREMENT SYSTEM OF OHIO

275 EAST BROAD STREET · COLUMBUS 43215

REPORT TO MEMBERSHIP

The Board and staff are pleased to report these highlights of operations for the year ended August 31, 1969. The number of active teaching members in the public schools and universities reached a new high of 142,000. Benefit payments are being made to more than 27,000 former teachers or their survivors at an annual rate of over $87,000,000.

Assets continued to increase, reaching a total of $1,532,000,000 at year end. These assets are a reservoir of savings of our members and a reserve for payment of benefits for present and future retirants.

We are ever mindful of our responsibility to maintain financial stability and are continually working to develop more economical and efficient methods for performing our services. We also hope to further improve the benefit program and services in 1970.

We sincerely appreciate your suggestions and continued support.

Ray L. Lillywhite
Executive Director

November, 1969

RETIREMENT LEGISLATION

WHAT WAS DONE IN 1969

The General Assembly approved two retirement bills, neither of which affect employee or employer contribution rates.

1. **Senate Bill 408** provides broader investment authority designed to improve investment income to help pay the cost of present and future benefits.

2. **Senate Bill 409** is a corrective amendments bill to improve administration of Retirement System programs. The principal features of this bill are:

   a. Reduces from 2 to 1 1/2 years the Ohio service requirement for restoring previously canceled credit.

   b. Provides a new retirement date - a member who does not contribute to the System after February 1 may retire the first of any month thereafter.

   c. Permits a member who elects combined retirement with Public Employees Retirement System or School Employees Retirement System to file an application in any one of the Systems. Formerly an application was required in each System.

There were no substantive improvements in the benefit program although many proposals were introduced.

RETIREMENT IMPROVEMENTS NEEDED – 1970

In 1969 the General Assembly rejected several retirement bills and action on others was deferred until 1970. Also the Ohio Retirement Study Commission has several bills currently under study. You should give careful consideration to the following:

1. **House Bill 210 – Survivor Benefits**

   Increases substantially the schedule of flat survivor benefits by placing them on a basis related to earnings and number of dependents. Present monthly amounts for widows, orphans, parents, and widows and widowers with children in their care, are minimal.

   Provides benefits to children be continued to age 22 if in school.

   Provides benefits for a widow at age 50 if the member had 10 years of Ohio service. Presently, law requires 15 years of Ohio service.

   Provides benefit for an imcompetent surviving spouse.

2. **House Bill 211 – Service Retirement**

   Increases retirement benefits as a percent of final average salary for members under age 65 with less than 35 years of service. Present retirement law places great emphasis on completing 35 years. Under age 65, retirement benefits as a percent of salary are substantially less for persons with 26-34 years of service. House Bill 211 corrects this inequity.

3. **Automatic Cost of Living Adjustments**

   We suggest an annual automatic increase of 2% in benefits beginning after two or three years on retirement. This would apply to existing pensioners, future pensioners, and survivor benefit recipients.

(3. continued)

In 1969 the bills which tied cost of living adjustments to the U. S. Consumer Price Index were found to be excessive in cost and were not held over to 1970. However, various alternatives are under study and the Ohio Retirement Study Commission is mandated by statute to report on post-retirement adjustments to the legislature in 1970.

SUMMARY OF OPERATIONS

BENEFITS IN 1969

SERVICE RETIREMENT The primary purpose of the System is to provide monthly lifetime income for the retired member who meets one of the following eligibility requirements:

Age	Service
55	25 years
60	5 years
Any Age	35 years

In 1969 the number of active teachers who accepted service retirement was 2,073, an increase of 17% over the previous year. A number of factors contribute to the increase in the number retiring: higher salaries for teachers in recent years, the retirement formula itself which was improved again in 1968, a reduction in the teacher shortage, and unrest in the schools.

The average annual benefit for all active teachers retiring was $4,892. For teachers with 35 or more years of service, the average benefit was $6,981 or 76% of final average salary. This benefit permits a living standard comparable to that before retirement since retirement contributions are eliminated and Federal income taxes and other expenses are reduced. Almost one-third of those retiring provide additional lifetime income to a spouse or other eligible beneficiary under the joint survivor plan for paying benefits.

Following are the averages for teachers who retired in 1969:

1969 – SUMMARY OF BENEFITS

SERVICE RETIREMENT	Number Retired*	Ohio Service	Age	Annual Benefit**	Benefit as % of Salary***
From Active Membership					
Years of Service					
40 or more	453	43.4	65.0	$7624	81%
35 to 40	458	36.6	61.2	6346	70
30 to 35	243	32.1	64.2	4811	58
Less than 30	919	20.3	64.0	2842	37
ALL GROUPS	2073	30.3	63.6	4892	58

*Employed in Ohio during 1968-1969
**Single life annuity
***Average salary for highest 5 years

From Inactive Membership	376	16.5	60.8	$1546	30%

Those who retired from inactive service took advantage of Ohio's deferred benefit provision. With as few as 5 years of Ohio credit, a teacher may leave teaching or leave Ohio and still be eligible to receive a retirement benefit based on that credit when he attains age 60. If the same teacher has at least 25 years service credit, he will be eligible for his retirement benefit beginning at age 55.

This vesting for a deferred benefit and the money purchase or final average salary formula assures a reasonable income for short periods of Ohio service whether they be early or late in the teaching career.

SURVIVOR BENEFITS

After 1 1/2 years of Ohio service you have survivor protection for your beneficiary. This coverage may be more valuable than any other financial protection you provide for your family.

Survivor benefits were paid to beneficiaries of 147 members who died during 1969. The average annual benefit is $3,168.

PERMANENT DISABILITY BENEFITS

Eligibility Requirements:

- Under age 60
- 5 or more years of Ohio service credit
- Disability for teaching presumed to be permanent

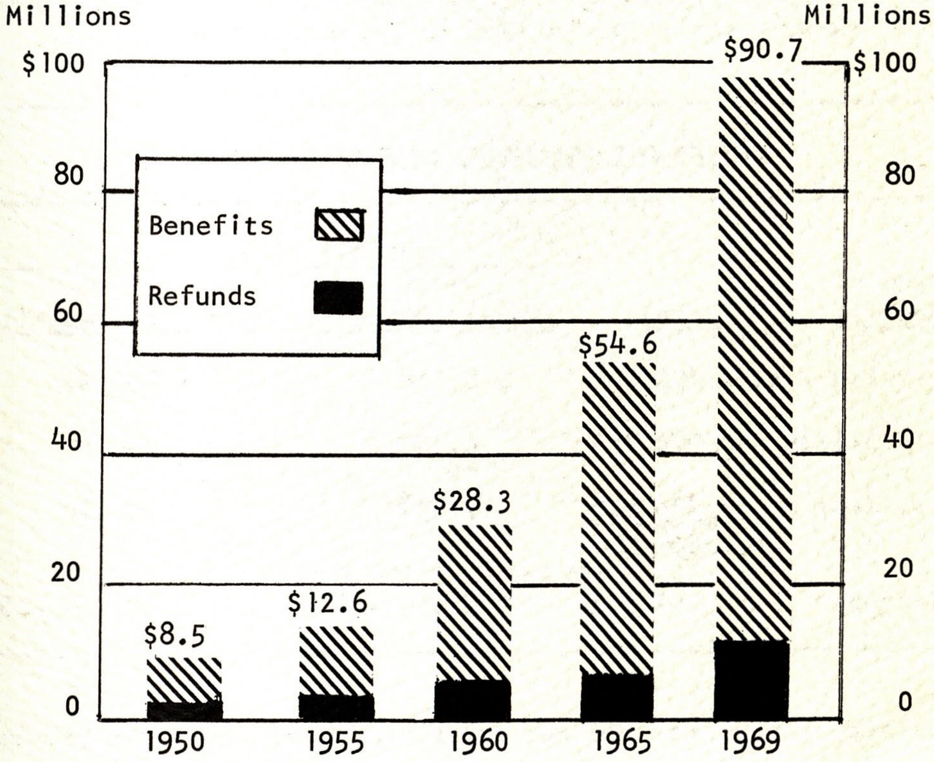
This is a protection which is considered to be one of the most liberal disability coverages in the nation. In 1969, 66 members retired because of disability. Disability benefits granted last year are summarized as follows:

Number	66
Average Age	52
Average Service	18
Average Annual Benefit	$3720

ANNUAL BENEFIT PAYMENTS

The total of monthly benefit payments and cash refunds to members in 1969 was $90,700,000 compared to $77,800,000 in 1968. Since 1950 the amount of annual payments has increased more than 10 times. During the same period the number receiving benefits increased from 7,550 to 27,322.

PAYMENTS – BENEFITS AND REFUNDS
1950 – 1969



RESERVE FUNDS NEEDED TO PAY BENEFITS

At retirement, all benefits are completely funded. This means that sufficient funds are set aside to meet the requirement for the payment of all benefits as they come due.

This requires a large reserve derived from employee and employer contributions, plus investment earnings. Currently members contribute 7.8% of their salaries and employers contribute 12.9% of total payroll. Employee and employer contributions and investment income provide all the funds needed to pay Retirement System benefits.

Reserve funding provides maximum security and is the least expensive method of financing lifetime benefits. The following table shows amounts set aside in 1969 to pay benefits.

RESERVES REQUIRED TO PAY BENEFITS

Type of Benefit	Total	AVERAGE PER BENEFIT From Member Deposits	From Employer Deposits
Service	$132,650,000	$ 8,718	$ 48,930
Disability	2,976,000	6,155	35,761
Survivor	5,728,000	7,297	34,210
	$141,354,000		
Average	$ 56,334	$ 8,569 - 15%	$ 47,765 - 85%

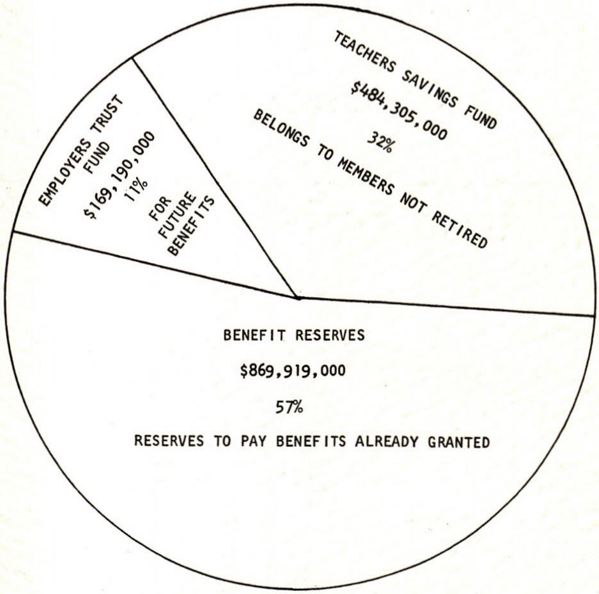
Required reserve for the average benefit last year was $56,334.

FUND BALANCES

At August 31, 1969, System funds totaled $1,532,000,000. The largest portion, 57%, was in reserve funds to pay benefits of members already retired. The next largest portion, 32%, represents the total amount in savings accounts of members. The smallest portion, 11%, is in the Employers Trust Fund. A sufficient amount is transferred from this fund at retirement which when added to members' accounts will provide the full reserve for benefits granted.

Balances in the funds at the end of the fiscal year are as follows:

FUND BALANCES
8/31/1969



INVESTMENTS – A PRIMARY SOURCE OF INCOME

Funds from members and employers not needed for current obligations are invested in high quality securities.

In 1969 the Retirement Board, on advice of a nationally recognized investment counseling service, invested $254,000,000 at an average yield of 5.75%.

Large common stock purchases result in a sacrifice of current yield for higher long range income. Higher yield over the long term is a major objective of the Retirement System.

By the end of the year, the System had reached the statutory ceiling on common stock holdings, 25% of total assets, and stock purchases had to be reduced. In 1970, we will be able to increase stock purchases under the investment liberalization which now permits 35% of assets in stocks.

During the year low yielding bonds were sold or exchanged for higher yielding bonds which will result in $1,500,000 per year additional income, or a total of $41,000,000 over the remaining lifetime of the bonds.

Investments by classifications at the end of the fiscal year are as follows:

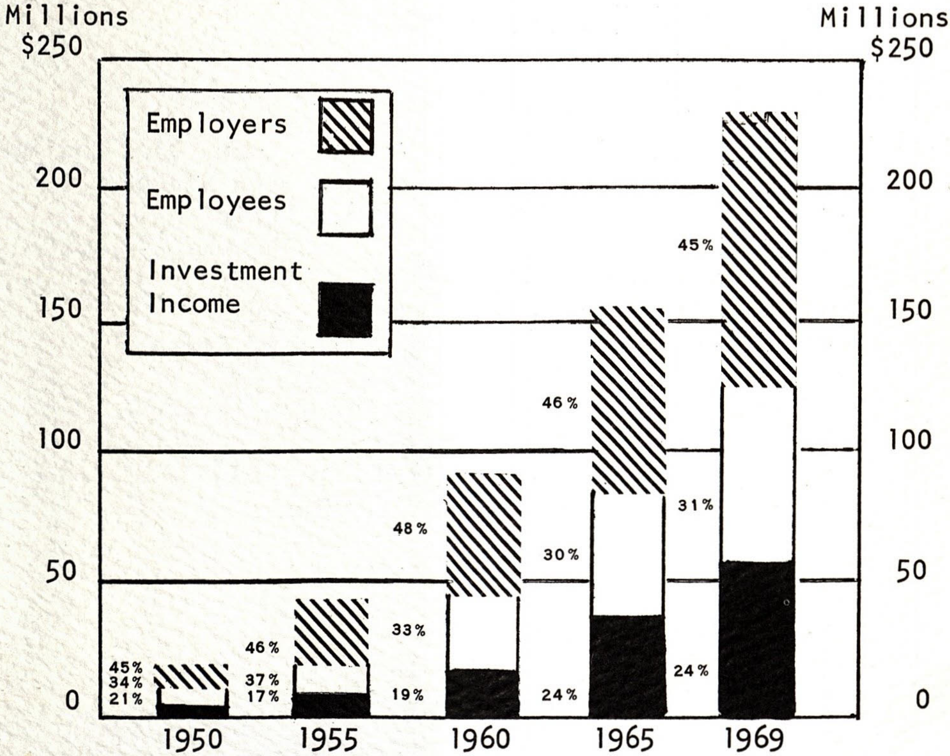
INVESTMENTS – 1969

Classification	Total Portfolio	Percent	Yield
Fixed Income Obligations:			
U. S. Government and Agencies..............	$ 27,906,200	1.8%	5.07%
Ohio Municipal........	6,236,700	0.4	4.04
Canadian..............	91,079,000	6.0	6.29
Corporate.............	738,476,707	48.2	5.01
Mortgages:			
VA and FHA............	282,218,551	18.4	5.16
Stocks:			
Preferred.............	13,115,103	0.8	4.66
Common*...............	366,599,443	24.0	3.73
Productive Real Estate..	6,411,001	0.4	4.91
TOTAL.......	$ 1,532,042,705	100.0%	4.86%
*Unrealized Capital Gain	$ 20,388,000		

Investment income is a primary source of income in building the assets of the System and pays a substantial part of the cost of benefits which otherwise would have to be collected from members and employers.

Income from the three major sources has increased in recent years to meet the increase in benefit payments. The chart below shows how income has increased from 1950 to 1969 and the importance of investment income in the total picture.

INCOME FROM EMPLOYERS, EMPLOYEES, AND INVESTMENTS
1950 – 1969



FINANCIAL REVIEW

An annual valuation of assets and liabilities is made by Huggins & Company of Philadelphia to assure the actuarial soundness of the System. The Auditor of State, through its Bureau of Inspection and Supervision of Public Offices, makes an annual audit of all financial transactions of the System. The Attorney General of Ohio serves as legal counsel for the Board.

****

RETIREMENT BOARD

Harold Nelson, Chairman
Dominion Junior High School
Columbus, Ohio

Charles Cook, Vice Chairman
Lorain High School
Lorain, Ohio

Paul W. Brown
Attorney General of Ohio

Roger Cloud
Auditor of State

Martin W. Essex
State Superintendent
of Public Instruction

Ray L. Lillywhite
Secretary

The State Teachers Retirement System of Ohio

REPORT TO MEMBERSHIP

1974 was another banner year for STRS membership in terms of improvements in administering the Retirement System program and improvements in the area of legislation. For teachers in active service, there were two very significant achievements affecting benefits. House Bill 1160 makes possible the purchase of up to five years of out-of-state credit, to have the same value as if the service in another state had been rendered in Ohio. More than 700 Ohio teachers have already purchased service credit under this new program. Since such credits have the same value as Ohio service credit, and Ohio credit is an important factor in calculating the annual retirement benefit, it behooves anyone with out-of-state credit to look into the cost and the return on that cost.

Additionally, House Bill 1034 reduced the base salary in the retirement formula from the average of the five highest years to the average of the three highest years. Under this provision, future benefits are increased quite significantly for retiring teachers, since salaries have been increasing somewhat each year.

Substantial improvements in benefits for teachers already retired prior to July 1, 1971 were made in House Bill 1476, which provided varying levels of increase, based on the retirement date. These increases were sorely needed, and were a very welcome addition to the October, 1974 checks.

Another milestone for the Retirement System was the expansion of the Retirement Board from five to seven members by the addition of two additional teacher members. The legislation calling for this change was passed in 1973, and became effective in 1974. A special election was held which filled the two new positions, and in the future, one member of the Board is elected annually on the first Monday in May. Formerly, this was a biennial election.

No less significant were improvements made in the Health Care Plan for teachers already retired and active teachers who retire in the future. In January, 1974, the System began paying premiums for retired members under the then existing medical insurance program. In the meantime, Retirement System management, along with the administrations of the other four retirement systems and an insurance consultant, restructured the health insurance program. Coverages were improved quite significantly by the addition of what amounts to a major medical plan, including prescription drug coverages, with no deductible. Effective July 1, 1974, this new plan was put into force for all retirants, with premiums paid by the System. Ohio teachers now have a medical insurance program that is paid up at retirement. The plan coordinates with Medicare and it is possible to obtain coverage for a spouse or other dependents, with the premium deducted from the benefit check. Completely new Retirement System information folders have been prepared, which incorporate the changes made in benefits. Additionally, there are information pamphlets on the STRS Health Care Program available for those nearing retirement.

A number of improvements were made internally in 1974, including addition of a new computer, to better serve our teaching and retired members. This new computer gives us information about each member's account on a video tube, which makes service faster and should, soon, result in considerable improvements in service by shortening the turnaround time in answering telephone calls or written correspondence. Also, this year the member's Annual Statement is improved by the addition of further detail for members who are eligible for retirement.

In 1974, investment income is on the order of something over $140 million and plays a continually more important role in financing the program. We will continue to try to improve investment income to help keep the cost of benefits down and to use this income to help further improve the program.

In 1974, assets of the Fund increased from approximately $2,500,000,000 to over $2,800,000,000, a substantial increase in one year. Annual benefit payments increased from approximately $150,000,000 to about $169,000,000. Over 2400 service retirements were processed for those in active service, with an average annual benefit over $6900. In addition, there were more than 265 disability benefits and over 210 survivor benefits approved during the year.

Looking forward to 1975, the Retirement System is working on a broad spectrum management study with a consultant of national status. The entire organization will be reviewed, including accounting, data processing, investments, administrative organization and services to the membership. We have high hopes that meaningful recommendations will result. Hopefully, these studies will be completed and implementation of the recommendations can begin on or before July 1, 1975.

On balance, 1974 was another very successful year. We plan to continue efforts on behalf of the members and retirants. If you have any suggestions for improvements in the System or in the benefit program, if you have suggestions for improvements in services to membership, if you have any constructive criticisms, we urge you to let us hear from you so that we may continue to have the Retirement System program and its administration reflect your interests.

James L. Sublett

December 1974

JAMES L. SUBLETT
Executive Director

STRS 1920

RETIREMENT BOARD

The State Teachers Retirement Board meets regularly on a monthly basis to consider investments, benefits, and any changes proposed in policies.

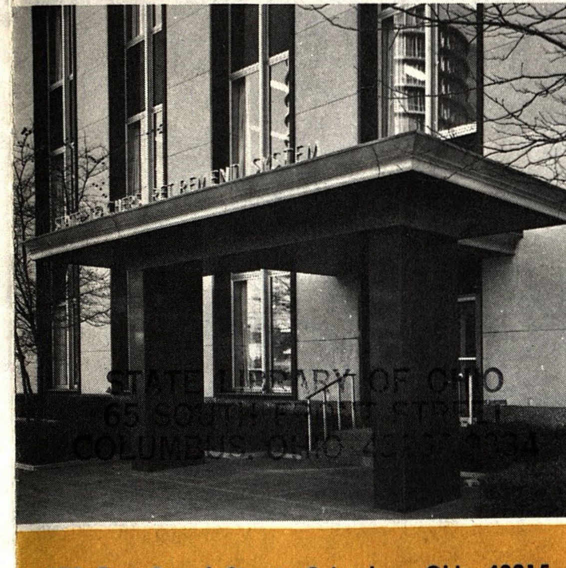
In 1973, the Ohio Revised Code was amended to increase the number of elected members on the Board from two to four. In accordance with the law, the two new positions were filled by election from the membership. Present members of the Board are as follows:

William J. Brown Attorney General of Ohio	**Louis Koenig,** CHAIRMAN Oak Hills High School Hamilton County
Joseph T. Ferguson Auditor of State	**Edward E. Kral,** V. CHAIRMAN Cleveland Board of Education Cleveland, Ohio
Martin W. Essex State Superintendent of Public Instruction	**E. Paul Morehouse** East High School Akron, Ohio
James L. Sublett Secretary	**Gean A. Norman** Ohio Avenue School Columbus, Ohio

PUBLICATIONS AVAILABLE UPON REQUEST

1. Ohio Teachers Retirement and Financial Security Plan (General Information Bulletin)
2. Service Retirement
3. Survivor Benefits
4. Disability Retirement
5. Restoring Canceled Credit
6. Military Service Credit
7. Out-of-State Teaching Service
8. Funds and Facts

1974 Annual Report of the State Teachers Retirement System of Ohio



275 East Broad Street, Columbus, Ohio 43215

OPERATING REVIEW

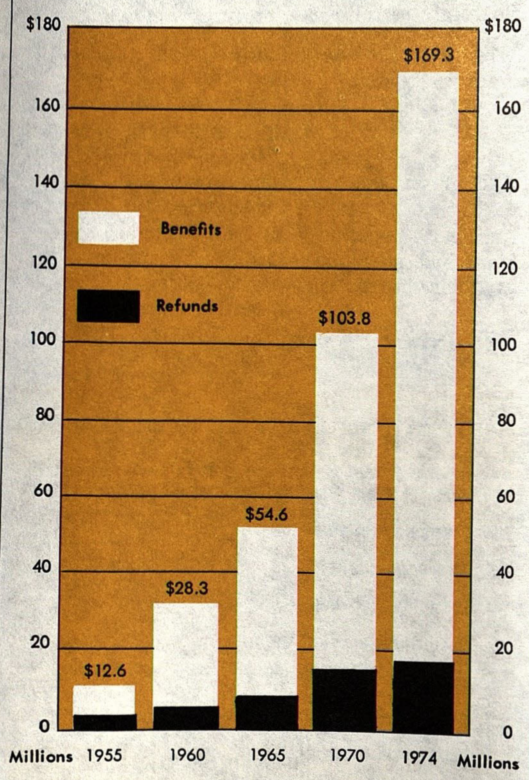
STATISTICS

	1972-73	1973-74
NEW BENEFITS		
Service Retirements	2,555	2,427
Average Annual Benefit	$6,103	$6,944
Disability Retirements	198	265
Average Annual Benefit	$4,752	$5,772
Survivor Benefits	61	52
Eligible for Retirement	$4,339	$4,864
Other Survivor Benefits	120	162
	$4,089	$4,397
MEMBERSHIP		
Members in Service	147,000	153,000
Inactive Members	38,000	39,000
Refunded Accounts	10,392	10,351
Pensioners Receiving Monthly Benefits	36,274	38,652
FINANCIAL		
Assets	$2,542,000,000	$2,818,000,000
Benefits Paid	$ 149,600,000	$ 169,300,000
Income from Investments	$ 117,000,000	$ 140,000,000

ANNUAL BENEFIT PAYMENTS

Total payments for service retirement, disability, and survivor benefits and cash refunds to members increased from $149,600,000 in 1973 to $169,300,000 in 1974, an increase of more than 13.2 percent.

PAYMENTS — BENEFITS AND REFUNDS 1955 - 1974



RESERVE FUNDS FOR BENEFIT PAYMENTS

At retirement, sufficient funds are set aside to meet the payment of all benefits as they come due. This is called "full reserve funding".

The reserve dollars come from employee contributions, employer contributions, and investment earnings. Since January 1, 1974, members contributed 8% of their salaries. Employers contribute 12.55% of total payroll, about 6.0% of which is used to fund past service liabilities. Investment income added to employee and employer contributions provides all funds needed to meet benefit commitments.

Reserve funding is the least expensive method of financing lifetime benefits and provides maximum security for retired persons. The following table shows the amounts of reserves set aside in 1974 for benefits granted in 1974.

RESERVES REQUIRED TO PAY BENEFITS — 1974

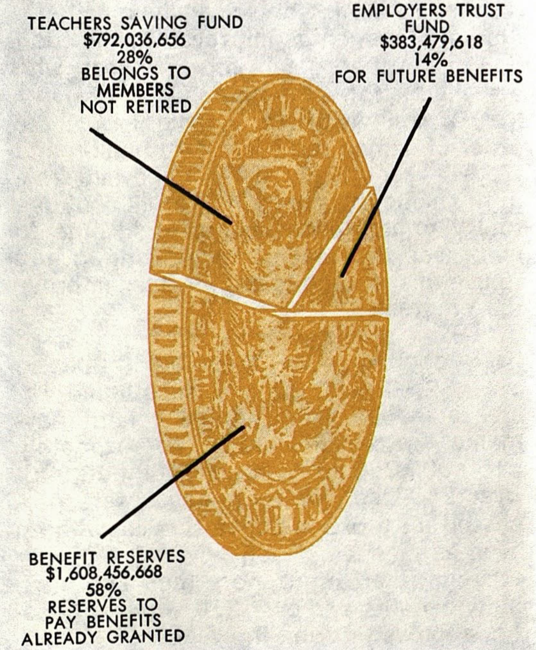
		Average Per Benefit	
Type of Benefit	Total	From Member Accounts	From Employer Funds
Service	$234,393,200	$10,847	$69,812
Disability	15,075,700	8,661	48,228
Survivor	11,927,700	7,724	48,013
	$261,396,600		
Average Reserve	$77,222	$10,039 13%	$67,183 87%

* Includes active and inactive members, and those retiring jointly with PERS or SERS.

RETIREMENT SYSTEM FUND BALANCES

System funds totaled more than $2,780,000,000 at August 31, 1974. Fifty-eight percent was in reserve funds to pay benefits of members already retired. The next largest portion, 28%, represents the total accumulation of all members' savings accounts. The smallest portion, 14%, is in the Employers Trust Fund from which a sufficient amount is transferred at retirement and is added to members' accounts to provide the full reserve for new benefits granted during each year.

FUND BALANCES 8/31/74



ASSETS AND LIABILITIES AT AUGUST 31, 1974

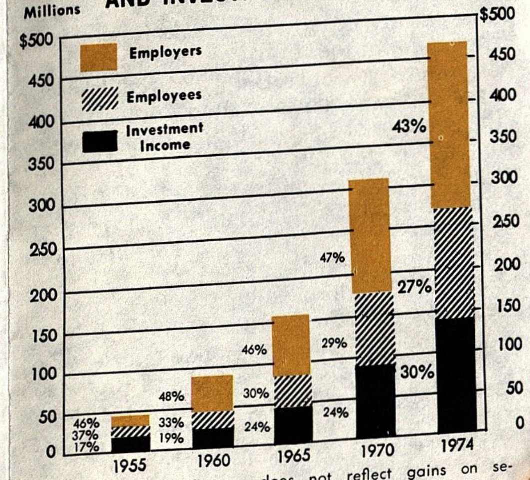
ASSETS		
Cash		$ 142,891.06
Investments		
Short Term	$ 55,494,772.21	
Federal Agencies	20,216,769.35	
F.H.A. & V.A. Mortgages	225,552,926.40	
Canadian Bonds	264,406,094.95	
Corporate Bonds	1,207,095,859.31	
Common & Pref. Stock (at cost)	955,390,958.02	
Other	20,699,747.82	
Productive Real Estate	5,761,443.67	
		$2,754,618,571.73
Accrued Interest Receivable		28,517,136.58
Home Office Furniture & Equipment		682,276.10
Land & Building		1,389,369.35
TOTAL ASSETS		**$2,785,350,244.82**
LIABILITIES		
Accrued Benefits and Expenses Payable		$ 1,377,303.56
Funds		
Teachers Savings Fund		792,036,655.73
Employers Trust Fund		383,479,617.71
Annuity & Pension Reserve Fund		1,541,199,755.97
Survivor Benefit Fund		67,256,911.85
TOTAL LIABILITIES		**$2,785,350,244.82**

INVESTMENTS — A SOURCE OF FINANCIAL STRENGTH

Income from invested reserves of the Retirement System accounts for about 50% of the total cost of underwriting various benefit programs administered by the System. Improved investment performance can result in major benefit additions without cost to members or employers and can be utilized in funding existing liabilities. It is not only desirable but imperative that the Retirement Board and staff secure the very best possible investment performance keeping in mind safety of principal and maximum total return. We feel that our investment organization and staff are geared to these objectives.

The professional investment staff of the System are constantly reviewing the securities portfolio of the System to realize the investment objectives of the statutes and the Retirement Board.

INCOME FROM EMPLOYERS, EMPLOYEES, AND INVESTMENTS 1955 - 1973



NOTE: Investment income does not reflect gains on securities sold.