Interim report on STRS June 2021. G. Newsom

We’ve all seen on the national front the rise of divisive language, and I’m sorry to see it happening at STRS. It didn’t used to be that way.

This is from my notes at the start of the STRS Board meeting on 17 June 2021. Board member Wade Steen said he found Siedle’s report (the “forensic audit” commissioned by ORTA) disturbing but not surprising. He asked why it isn’t on the agenda. He claimed STRS is not always transparent and his requests for information are often denied and the staff obstructs the Board from finding solutions. Steen made a motion to add the Siedle report to the agenda. After the motion was seconded, three Board members said they had not had time to digest the report and wanted the discussion postponed. The Chair (Rita Walters) said the topic would be on the August agenda (there’s no meeting in July). In the vote on the motion, Board members Steen (appointed by the governor) and Yoel Mayerfeld (appointed by the treasurer of state) voted Yes; the other members voted No.

Newly elected Board member Rudy Fichtenbaum, a member of HPA who joins the Board in September, sent an email to HPA members on 20 June, which contained the followed sections regarding Steen’s agenda proposal.

“I have never heard a Board meeting like the one I listened to Thursday, and I have sat through many Board meetings for different organizations. I have never seen an organization where Board members cannot add items to a Board agenda. I can tell you that no University Board operates that way, union Boards do not operate that way at least not in the AAUP nor on the Executive Board of the Miami Valley AFL-CIO. It is part of the way that the staff try and control the agenda of the meeting because they are afraid. I will not speculate as to why they are afraid but I think that is a fact.
The fact that no Board members were willing to comment on Siedle’s report except for Wade Steen is deeply disturbing. Board members who spoke in response to Steen’s request sounded like school children giving excuses like my dog ate my homework, when trying to explain why they had not “had time to read the report carefully.”

How one views the above may be in the eye of the beholder. The full text of Fichtenbaum’s letter is at https://www.strsohiowatchdogs.com/ .

At the HPA meeting on 10 June, there was interest in meeting with the author of the report, Ted Siedle, and that occurred on 21 June. The great majority of the report consists of claims and statements that I have no way of checking (sort of like being the graduate school rep on a PhD oral exam in a field of which I know next to nothing). There were a couple items that I thought I understood but did not make sense to me. For instance, on page 16, Siedle says that one change could save STRS $143 million annually and this was enough to restore the COLA benefit to 2 percent. Since STRS pension payouts are about $7 billion per year, 2% does come to about $140 million per year. But while a 2% COLA would cost STRS $140 million the first year, it would be $280 million the second year, $420 million the third year, etc., and an annual savings of $143 million doesn’t cover the cost beyond the first year. Siedle responded that STRS had been losing the $143 million each year for the last decade and, if invested, that might amount to $3 billion by now. A quick calculation showed that $3 billion in cash would be exhausted in 6 years of 2% COLAs. Siedle said retirees should be very happy with 10 years of a COLA; I responded that it was 6 years, not 10, and once the cash was exhausted, pensions would go back to what they had been before the COLAs started. [This isn’t exactly true; an extra $143 million each year could fund a permanent one-time 2% increase in everyone’s pension.] His response was that there were a lot of other savings he was suggesting that would continue to cover the larger pensions. My response was that his initial claim was that the $143 million would cover a 2% COLA. Is it misleading to say an annual savings that would fund 2% COLAs for 6 years before reverting back to about what pensions had been before would “restore the COLA benefit to 2 percent”?

Siedle and I exchanged emails to sort out the other problem. His report claimed that Alternative investments by STRS over the 10 years ending on 30 June 2019 had a poor return; my copy of the investment return for that period showed a much better return. It turned out Siedle used data ending in June 2020, although he said it was for 2019. This was significant; Alternative investments lag the stock market typically about one quarter, so 30 June 2020 was when Alternatives were near their bottom from the pandemic crash. Labeling the data as being from 2019 was certainly incorrect, and choosing a date when Alternatives were down sharply but equities were mostly recovered I think created a misleading picture.

On the other hand, there was general agreement in HPA that the STRS rebuttal to the Siedle report was not adequate and STRS needs to take the accusations seriously, a sentiment that we will forward to the Board. If STRS disagrees with items in Siedle’s report, they need to explain why; if STRS believes a claim in the report has merit for improving STRS, then they need to see about adopting it. My comment was that if they fail to respond to each specific accusation, that will be interpreted as a guilty plea.