

## **ORTA STRS Board of Trustee Candidate Screening Questionnaire**

**ORTA has a vested interest in who serves on the STRS Board of Trustees. The purpose of this questionnaire is to help STRS retirees with the choices of candidates that seek to serve on the STRS Board. Your answers to the questions presented will be shared with ORTA members via our monthly newsletter. Include contact information for collecting signatures for your petitions.**

**1. Tell us who you are and where you worked during your educational career.**

- Twenty-seven years of teaching fourth through eighth grades in the Strongsville City Schools.
- College instructor.
- Ten years of Fee-for-Service financial planning practice. Registered Investment Advisor with the US Securities and Exchange Commission. NASD Series 7 (investments), Series 6 (insurance), and Ohio GS-63 securities licenses.
- Courses in Investments, Taxes, Insurance, Retirement and Estate Planning, and Employee Benefits; The College for Financial Planning (CFP), Denver, Colorado.
- BSEd Bowling Green State U 1972, MEd Cleveland State U 1976
- Various business, professional volunteer, writing, and consulting.
- Background and other details at <https://www.bobstein.us>

**2. Tell us why you are running for the STRS Board and what skill set you will bring to this position.**

I first ran for the STRS Ohio board in 2008. The Global Economic Downturn had severely damaged the system and I believed my experience in business and investments could benefit STRS Ohio and its retirees. I've continued to run for a retiree trustee seat since then because my service has measurably improved the long-term condition of the system as well as increase the probability that STRS Ohio retirees will recover what was lost in the pension reform following The Global Economic Downturn.

I was a board candidate in 2012 and 2016 to provide continuity to pension reform programs and to work to improve the STRS Healthcare Fund. My thought was that Healthcare inflation is much higher than broad inflation so progress made to slow the rise in healthcare costs would benefit retirees more quickly than if we waited to fix the pension system first. While the board continued its work on pension issues, it was able to move our healthcare fund from "we have maybe 10 years left" to "the healthcare fund is fully funded for 60 year rolling periods" by adjusting and executing a complex plan over most of the last decade. I was part of that from the beginning and I am sure we can do it with COLA and supplemental benefits as well.

Before I was elected in the 2008-9 election, I studied several board governance models and enhanced my understanding of institutional investment concepts. Personal investing, and even economics, are very different from making institutional investment policy. I've continued to update my training using professional publications and professional contacts made at conferences and seminars.

I have earned a Certificate of Achievement in Public Plan Policy (CAPPP) from The International Foundation for Employee Benefit Plans and attended workshops, conferences, investment seminars, and many distance courses related to service as a trustee of the State Teachers Retirement System of Ohio. In my first STRS Ohio Board term I served on the Trustee Education Committee for the National Council for Teacher Retirement.

My ongoing interaction with a global network of public service and pension professionals continues to produce policy and program ideas that benefit STRS Ohio. It is interesting that trustees of other pension systems, academic researchers, and the occasional international authority often seek the advice of STRS Ohio board members and staff regarding efforts to emulate the success of our policies and practices. They often ask “why can STRS Ohio make this work but we can’t?” The answer is high quality professionals executing a proven governance model solely in pursuit of the Mission and Vision of the system.

My daily work involves following developments in the public pension field and other industries using several daily newsfeeds. I share my comments on the weekly NCPERS newsletter with STRS retirees and members who have requested this by writing to my STRS email address.

### **3. Tell us your background with STRS issues. How well informed are you?**

In addition to my answer to question # 2, I have attended and actively participated in every board meeting, every executive session, and every committee meeting since September 1, 2009. In addition to the training and ongoing involvement outlined in question # 2, I have read every page of the board materials for every board meeting and committee meeting since I was elected in the spring of 2009 – about 300 pages per board meeting.

The board has elected me to serve 3 terms as Chair and 3 terms as Vice-Chair. I have served on and chaired every major board committee including Audit and Investments and chaired special committees on board education and planning, the committee to design the first integrated Funding Policy, and the committee that directed the global search for STRS Ohio’s 10<sup>th</sup> Executive Director.

### **4. Feel free to offer any additional thoughts you have with regards to your candidacy.**

**I expect to continue to help the board do the following in my next term:**

- **Broaden the STRS Ohio investment policy and investment toolbox to improve investment returns with reduced risk.** STRS Ohio has one of the highest 5-year risk-adjusted investment returns of any major North American pension plan. The system will always need to do better. About 80% of pension payments and 100% of STRS Ohio retiree health care subsidies are the result of investment returns. Improved investments will help restore the value of the pension fund to our contributing members and our retirees by both increasing benefits and reducing employee contributions.

I’ll continue to encourage STRS to expand its investments and portfolio design beyond index-based long-only capital market strategies that require perpetual economic expansion for success. Benefits must be paid during economic contractions as well as expansions.

US pension plans were originally designed around bond returns. As US pension systems became “more mature” – more growth in retirees than contributing members – pension systems became more sensitive to the business cycle. Retirees originally expected to come off the books in their 60s started living into their 90s. (Longevity risk) the perfect storm of more economic cycle risk at the same time the need for cash to pay retirees was also growing. The adoption of risk allocation and Modern

Portfolio Theory (MPT) several decades ago bought the industry some time but, even when they invested in only bonds, pension systems have always taken a hit when the investment markets/economy tanks. But now they don't have as much opportunity to recover because they are "more mature" and also can't earn investment income on cash they paid out in benefits during the down part of the cycle. These are problems that MPT can't solve. The math just isn't there.

With more direct internal control of its investments than perhaps any US pension plan, and a lot of specialized experience, STRS Ohio has the best chance of developing strategies that are not dependent on unreliable economic winds. It will be very hard but other options are unacceptable.

- **Recognize that STRS needs to do more to profit during periods when the economy is either flat or contracting.** For example, a factor-based model with an options overlay has survived live testing. To date the portfolio has produced returns above its benchmark and beat all the common hedge fund benchmarks and lowered risk. The strategy was designed to replace more risky externally managed programs with high fees. It is performing as expected but it is only one of the early steps on this journey. STRS is unique in developing and expanding programs for direct and co-investments in some asset classes and asset class specific risk control strategies. We need to work to extend counter-cyclical investment capabilities to all asset classes. There are also several non-traditional strategies that we must continue to develop. Both the current improvements and those in the research pipeline will require increased board member education and continued policy support from an engaged board. Board member training in basic economics, personal investments, or even CAPP training alone won't be enough.
- **Design programs that charge fees and participate in profits associated with the investments of other institutions.** They invest, STRS Ohio gets paid. Pension funds have a number of regulatory and market edges that can be "rented" to other types of institutions. No US pension fund takes significant profits from these now. STRS gets some income this way but it should be bigger if the board continues to do its job well. These strategies are the next step from the strategies and policies described elsewhere.
- **Continue to remind the board that a pension system needs a long-term view to control economic and longevity risk for its members.** To accomplish our mission, STRS board members, staff members, retirees, and voters must remember the repeated lessons of history -- leaders, candidates, and advocacy groups that take single-issue, short-term, or "me-first" stances always hinder progress toward member welfare and improved benefits of all types.

**The following are a few STRS accomplishments since I joined the board in 2009. Foundational policy work on these is complete. They all require continued staff work and knowledgeable policy monitoring. I either initiated or was actively involved in all of these.**

- A. Developed management policies and investment strategies that stabilized the STRS Health Care Fund. The fund operates on investment income alone and receives no contributions of any kind. In ~2010 the health care fund had about 10 years of funding left. Now, when many public pension systems are "getting out of the health care business" **our HC fund is sufficiently funded to provide STRS retirees with a meaningful health care subsidy in perpetuity.** The appropriate funding level reduces investment and economic risk even without an external funding source. The health care programs are adjusted annually to assure that both current and all future retirees can count on meaningful health insurance programs and a health care subsidy that positively impacts their lives. The flat premiums and \$250 that retirees in STRS health care plans received in their December 2020 benefit payments are only two of the results of this planning and effective management. The STRS

board and professional staff were able to fix our health care fund in less than a decade. Restoring the resiliency of the pension plan, and restoring COLA and improving other benefits, is a heavier lift but it can be done with the same level of professionalism, dedication, and planning.

- B.** Focused on systematically identifying, measuring, and managing enterprise risks. This included correcting policies at our domestic custodian bank that were exposing STRS to unquantifiable enterprise risks.
- C.** Designed a pension reform plan that moved the fund from actuarially unsustainable to 70% funded in 3 years. Worked with stakeholder groups to support passage of the necessary legislation. Educators in some other states continue to see plan changes and erosion of their benefits.
- D.** Oversaw improvements that helped STRS member services continue to rank #1 or #2 world-wide for over 20 years. Cost per member to deliver #1 service for STRS members is declining while the global average cost per member is rising. (CEM Benchmarking)
- E.** Improved fund governance and efficiency through staff leadership development, leadership succession planning, and improved board member orientation and education.
- F.** Used STRS HR tools to maintain a list of qualified candidates for appointed board positions. Offering this list to appointing authorities (Governor, State Treasurer, Ohio House and Senate) at appropriate times has helped STRS Ohio improve the qualifications of our appointed board members and avoid prolonged board seat vacancies that were previously common. Appointed investment expert board seats have experienced no prolonged vacancies since this practice began.
- G.** Developed an actuarially sound long-term funding policy. The policy contains an annually updatable dashboard that quickly communicates key data on the health and risk levels associated with the system. Bob chaired the funding policy review committee and guided the development of features that include innovative economic environment metrics to help future boards avoid poor decisions anchored to recent business cycle events. Anchoring, recency, and confirmation biases are persistent problems in almost all human policy endeavors and addressing them in pension funding policy was globally unique at the time. (re: Callan Assoc., Segal Actuarial, International Monetary Fund, and others)
- H.** Initiated discussions in 2009 that resulted in the Long-Term Capital Markets Planning project when Bob was chair of the board's investment committee in 2014. The goal was always to frame programs to institutionalize investment innovation and risk-adjusted return improvement. Continuing to update this program has produced investment initiatives and discussions that have generated improvement in risk-adjusted investment returns since it was initiated. This project is ongoing.