



ORTA Forensic Audit Update 2021

September Meetings
Presentation

Key Milestones of The ORTA Forensic Audit

Since 2013 when STRS initiated a 1-year freeze of the Cost of Living Allowance (COLA) STRS retirees have suffered financially. Even though COLA was restored in 2014, the promised 3% COLA was reduced to 2% until 2016 then eliminated in 2017. STRS benefits for all STRS beneficiaries were reduced through the elimination of a promised, guaranteed COLA in 2017.

ORTA opposed the 2017 action taken by the STRS board of trustees after the staff at STRS proposed this drastic measure. STRS presented this reduction in guaranteed benefits as a temporary measure, to achieve the goal of 100% funded status.

Many other options were offered by various stakeholders, however, STRS staff were focused on 'getting rid of COLA for retirees'

Other Steps Taken by STRS

In addition to the reduction in retiree benefits, STRS also instituted several changes to active STRS members:

Forcing active educators to work much longer to receive retirement benefits

Forcing active STRS members to contribute 40% more to the retirement system. Active teachers pay 14% but only receive a 10 ½ % benefit

Basing retirement on a final 5 year average salary v. a 3 year average salary (reducing benefits)

Other public pensions in Ohio instituted similar changes, however, STRS is far better funded than the other public pensions in Ohio

Shared Sacrifice?

STRS employees have not shared the sacrifice. Despite reducing benefits paid to retirees and active educators, increasing the level of contributions paid by active educators, and forcing active educators to work many years longer, STRS employees have received base pay increases every year since the benefits have been reduced, and many employees have received lavish 'bonus pay' equal to 125% of their annual salary.

ORTA Began Asking Questions

Considering the reductions in benefits for retirees, increases in contributions and increases in years of service for active STRS members, why were the employees at STRS not feeling the pinch?

Why was STRS not able to pay the promised benefits with the stock market at an all time high?

What was the plan to restore COLA and reduce the burden on active teachers?

Why were STRS employees receiving bonus pay when there was no evidence employee performance warranted bonus pay?

STRS Answers to Questions

STRS failed to offer any response to questions asked by ORTA over 2 years

In fact, ORTA reminded STRS trustees several times during public participation at STRS meetings, the only time the phrase COLA was mentioned was by retirees. STRS never spoke of COLA, in fact, when forced to respond trustees or STRS senior staff would simply say 'STRS beneficiaries were never promised a COLA'.

Enough is Enough

ORTA began working with 2 Facebook groups; The STRS Members Only Group and STRS Ohio Watchdogs Groups

ORTA and these groups shared common members and the common goals of getting answers to questions about the loss of benefits for STRS members.

In October of 2020 ORTA agreed to serve as a fiscal agent for raising money to hire Edward Siedle to conduct a forensic audit of STRS

Forensic Audit Details

ORTA collected over \$75,000 in just over 3 months!

Over 1000 individuals donated

- ORTA members
- Non ORTA members
- Active STRS members
- ORTA Local Chapters – Hamilton Co. RTA \$15,000
- Ohio Federation of Teachers - \$10,000

February 2021 Mr. Siedle Begins His Work

Edward 'Ted' Siedle principal/owner of Benchmark Financial Services

- Nationally known pension expert, former SEC attorney, best selling author, friend to pension beneficiaries, and bane to pension fraudsters

Mr. Siedle requested public records from STRS regarding investments.

STRS refused to provide many of the records Mr. Siedle sought to conduct his investigation.

What kind of information was Mr. Siedle seeking???

STRS Refuses to Provide Information

Our Forensic Audit sought information such as:

How much money is invested in each of the 135 external alternative investment accounts?

What are the fees and other costs associated with these 135 external alternative investment accounts?

What is the value of each of these 135 external alternative investment accounts?

These seemed like routine questions. What was STRS hiding?

Forensic Audit Seeks Ohio Supreme Court Help

Benchmark Financial has filed 2 Ohio Supreme Court actions to compel STRS to provide the information requested.

STRS claims to be transparent and often boasts that it is the most transparent agency in the State of Ohio.

Why then, does STRS not share with its members the amount of money invested in its alternative accounts/ Or share the costs associated with those investments?

What Did the Forensic Audit Find?

- STRS is not transparent- despite claims by STRS this organization does not disclose information about its investment practices, fees, or other information.
 - Did any STRS member know of the loss of \$525,000,000 in Panda Power in 2017? Why did we only find out by doing our own research? Why did we only find out in 2021?
 - Are there other investments similar to Panda Power?

Forensic Audit Findings Continued

STRS under reports its fees associated with the investment program. STRS claims that all fees and expenses are included and the investment earned are 'net of fees and expenses'. Mr. Siedle located information in the public records of one of STRS's external consultants that this is not the case.

In fact, the report from CEM (STRS external consultant) states that STRS may not know the costs associated with its alternative investments. This under reporting is estimated to be \$2 billion over the last 5 years.

Forensic Audit Findings Continued

- STRS pays significant 'committed capital' fees. Mr. Siedle claims that STRS pays \$143,000,000 to external fund managers for 'not investing' its money. Actually, STRS pays these fees once the capital is committed, but before it is actually invested. STRS claims the figure is closer to \$60,000,000. Either way, paying someone to 'not invest your money' does not make sense.

Forensic Audit Findings Continued

- STRS over reports its performance resulting in employees receiving incentive payments (bonus pay) that they haven't earned. A review of the performance in the investment department indicates that STRS employees received bonus pay in each of the past 10 years despite not reaching the benchmarks identified in STRS policy. As absurd as this sounds, data show that STRS staff have received bonus pay for 'their actual performance'; not measured against any benchmark. The practice of using **actual performance** in place of a benchmark was identified as a problem during the 2006 audit. This practice continues today!

Forensic Audit Findings Continued



STRS does not add value to the pension system. Despite its claim that the investment staff at STRS add \$100,000,000 to the bottom line at STRS, Mr. Siedle's report states that the active management investments program at STRS **costs** the pension system \$400,000,000 each year.



Finally, Mr. Siedle pointed out that STRS has ignored several findings of the 2006 audit of the system. STRS stated that they did not ignore the findings, but because they disagreed with the findings, they did not make changes. Really??

STRS Response to the Siedle Report

Of course, STRS does not agree with the Siedle Report. Well, we don't know what STRS thinks of the report. Despite a request from the HPA, for a response from the STRS Board of Trustees, STRS management provided the response. Presumably, the staff's response was approved by STRS trustees, but ORTA is unsure of that.

STRS challenged each finding but provided no evidence to support their position. This is due, no doubt, to STRS's desire to keep information that is damning to STRS out of the public's eyes.

Mr. Siedle has responded to the STRS response... Dueling experts... STRS can provide information and the controversy will fade.

What is next?

ORTA will continue to fight this fight. We are convinced that this is a worthy cause, and we also believe that 'right makes might'.

Consider the sides in this battle:

- ORTA has Ted Siedle, we have spent \$75,000.
- STRS has 105 investment experts, 25 senior staff, 4 giant external consultant companies with all the power that they bring (ACA, CEM, Cliffwater, and Callan all are huge corporations with unlimited capital). They also have the best witnesses money can buy. With so much money at stake it is not surprising that STRS will do ANYTHING to keep the status quo.

What has ORTA done?

All Ohio Representatives and Senators have received the Siedle Report and accompanying information

ORTA has met with individual elected officials

The Ohio Attorney General, Auditor of State, and Governor have all received the Siedle Report

The Ohio Retirement Study Council has received the Siedle Report.

Several national media stories have been published concerning the issues at STRS (Forbes, NBC, and others).

A Solution for Everyone

This situation is utterly confusing and confounding for retirees.

If STRS simply provided the information requested, the controversy would be resolved. By supplying records STRS could prove that the fees and expenses provided are accurate. We would also know if there are more Panda Power style investments. Why won't they provide these records? What are they hiding? Is this transparency?

A Solution for Everyone

Currently 3 STRS Trustees, Wade Steen (appointed by the Governor), Rudy Fichtenbaum (elected by STRS retirees), and Yoel Mayerfeld (appointed by the Treasurer of the State of Ohio) are advocates for STRS members and ask tough questions of the STRS staff. Unfortunately, there are 8 other trustees on the board and Rudy's, Yoel's, and Wade's voices are muted by the trustees that blindly follow the STRS staff.

Both Rudy and Wade have viewed a solution to STRS's need to earn more money and feel this solution must be fully vetted. Again, STRS staff oppose any public vetting, so the status quo remains in place.