

To: Ohio Retired Teachers Association

From: Chris Tobe, CFA, CAIA

RE: Ohio STRS Salaries & Bonus Structure

DATE: October 15, 2021

Ohio State Teachers Retirement Systems have some of the highest compensation in the nation among public pension employees despite a lower cost of living and private salary competition in the Columbus Ohio area.

On top of the highest salaries in the nation is a bonus program, that these overpaid public employees actual help set and control, with little oversight or transparency. With the high return of FY ending June 30, 2021, these bonuses could hit outrageous levels.

It is crucial that the setting of bonuses for FY 2021 be a transparent process with extensive trustee oversight by the complete board.

Salaries

The latest Ohio Checkbook website maintained by the Ohio State Treasurer and Budget office, only shows STRS salaries for 2019. Other Ohio plans have disclosed 2020 salaries. This is a major violation of Transparency that should not be tolerated. The Ohio Retirement Study Council (ORSC) which is supposed to provide legislative oversight has not in this case, but this general lack of accountability is not unusual and is broadly documented in the ORTA Forensic Audit of June 2021. ⁱ

For 2019 for total compensation STRS had 7 investment officers making over \$500,000 a year.ⁱⁱ Another 7 made between \$400-\$500,000 a year. 16 making between \$300-\$400k a year. 35 make between \$200k-\$300k a year. STRS has 65 people making over \$200 thousand a year which is at the top of US public pensions compensation. In adjoining states - Michigan has only 5 investment officers making over \$200 thousand a year.ⁱⁱⁱ Indiana and Kentucky have only 2 (CIO & ExDir) over \$200 thousand.

STRS 2019 base salaries are much lower but still way above national averages. The Chief Investment Officer (CIO or Dep.Ex.Dir Investments) base salary was \$381,390. 5 others make over \$300k in base. 9 more make -\$250-\$300, in base, 17 from \$200-\$250. This means over 30 staff making over \$200,000 a year in base salary. While the CIO base (most have no bonus) is not out of line the next level of high salaries is extremely unusual.

There are few national public salary databases, but a group called Pension360 collected them in 2014. They found a lot of Chief Investment Officers making in the \$200--\$250 like Illinois Municipal, Illinois State, Louisiana State, Los Angeles Fire & Police, Maryland Public, Texas

Municipal. Georgia Teachers CIO made \$144 thousand a year. South Carolina CIO made \$178 thousand a year, Iowa \$159 thousand, Arizona \$189 thousand.^{iv} And of course, lower-level investment staff almost all made under \$200,000.

Another academic study released in 2021 looked at Chief Investment Officer salaries at the top 100 public plans in the U.S.^v Their mean total compensation salary plus bonus is \$263,043, with mean salary is \$237,207. Given STRS size the 75th percentile could be found appropriate given Columbus cost of living. So total compensation for the 75th percentile was \$318,362 with salary being \$300,132 for CIO. 90th percentile which I believed should be large coastal plans with mean total compensation of \$504,854 the mean salary was \$408,983

There are no indications that STRS staff are any more qualified than average in public plans. Many are CFA charter holders but few if any seem to have any national stature or publications in the investment industry, or any indication that they are sought after by the private sector. In fact, private sector investment salaries in Columbus area seem to be much lower than those at STRS as indicated by staff moving from JP Morgan and Nationwide. STRS with over 65 people making over \$200 thousand a year in total compensation may make it clearly the highest paid (with possible exception of much larger CALPERS).

In my opinion a salary cap of \$300,000 for top 2 STRS employees with a \$200,000 cap for rest of employees would be a market rate for the region.

Bonus

The majority of public pensions do not pay a bonus because of a general aversion to public employees getting a bonus and the potential conflicts of interest. Even fewer pensions pay a bonus to investment officers below the CIO.

The bonus structure of STRS is unique in its size and lack of transparency. STRS has still not reported to the Ohio Checkbook for 2020 bonus.

The prior academic study released in 2021 looked only at Chief Investment Officer bonuses.^{vi} In the 75th percentile in plans the mean bonus was \$18,230 or 6% of salary. In the 90th percentile in plans the mean bonus was \$95,871 or 23% of salary. These bonuses are way out of line with national norms for public pensions.

In 2019 the last year STRS provided data one officer William Shurman got a \$280,847 bonus at 97% of his salary. STRS had 8 officers making over \$200,000 in bonus. Another 24 made a bonus between \$100-\$200 thousand most around 75% of salary.

The conflicts of interest given the power of staff over their own bonuses are extremely disturbing. How much is subjective by the CIO based on his perceived worth which may include areas like personal loyalty. How much is supposedly objective on investment performance.

The 2021 Forensic Audit strongly suggests that both investment performance and benchmarks were manipulated by staff.^{vii} The staff has a strong incentive to manipulate performance

numbers to enhance their own bonus. Their ability to create bonus of 4 times the other top public plans is especially troubling.

Alternative investments especially Private Equity and private debt are valued by their managers with little or limited outside independent valuations. These alternatives many with performance-based fees means managers have a vested interest in higher performance to enhance their own bonus. The Ohio STRS commented that they have advisory seats on most of these alternative partnerships. Therefore, both Private Equity staff and Ohio STRS staff share an interest in showing higher performance numbers to increase their own compensation.

These extreme conflicts of interest combined with the Siedle Forensic Audit may attract some attention from the SEC and/or FBI if not immediately addressed.

My recommendation would be to go with national norms, close the potential conflicts and eliminate the bonus. At least it should be capped at \$75,000 a year or 25% whichever is less.

Conclusion

Ohio STRS compensation is too high in almost every measure. Ohio educators are not paid in the top 1% and see this overcompensation of the people entrusted to manage their retirement as an inappropriate expense.

My recommendation which would still put them in top quartile of compensation would be a cap of \$300,000 a year in salary on top 2 and \$200,000 on other employees. On bonus I would recommend they be suspended immediately, and perhaps permanently. If decided to be reinstated it should be a board driven transparent model with a limit of 25%.

BIO

Chris Tobe, CFA, CALA is author of the "Kentucky Fried Pensions" currently serves as the Chief Investment Officer of the Hackett Group which consults to Public Pension plans where in 2016, he completed a major investment audit for the \$40 billion Maryland System in 2015 he completed an investment performance review of the \$26 billion Utah Retirement Systems. From 2008-2012 he served as a Trustee and on the Investment Committee for the \$13 billion Kentucky Retirement Systems. From 2008-2009 he was a Sr. Consultant with NEPC and worked with a number of public pension plans in OK, MO, MI, DC. From 1997-1999 he worked with KY Auditor Ed Hatchett and published a report on the investments of both KRS & TRS Systems. He earned an MBA in Finance and Accounting from Indiana University Bloomington and his undergraduate degree in Economics from Tulane University. He has taught the MBA investment course at the University of Louisville and has served as President of the CFA Society of Louisville. As a public pension trustee in 2010, he completed the Program for Advanced Trustee Studies at Harvard Law School and in 2011, the Fiduciary College at Stanford University. See more at <http://www.christobe.com/publicpensions/>



ⁱ High Cost of Secrecy STRS Edward Siedle https://82781d1e-9774-4c42-8beb-47ead2a438eb.filesusr.com/ugd/ed1884_cb39f322009c4c8aa4189e45f15402e7.pdf

ⁱⁱ <https://checkbook.ohio.gov/Salaries/Pension.aspx>

ⁱⁱⁱ <https://www.mackinac.org/salaries?report=state&search=any&sort=wage2020-desc&filter=&count=50>

^{iv} <http://pension360.org/pension-staff-salary-database/>

^v Paying for Performance in Public Pension Plans https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3781915 [Sugata, Ray](#) 21

^{vi} Paying for Performance in Public Pension Plans https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3781915 [Sugata, Ray](#)

^{vii} High Cost of Secrecy STRS Edward Siedle https://82781d1e-9774-4c42-8beb-47ead2a438eb.filesusr.com/ugd/ed1884_cb39f322009c4c8aa4189e45f15402e7.pdf