



Ohio Retirement Study Council

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To: Vice-Chairman Romanchuk
From: Jeffery A. Bernard, Senior Research Associate
Date: July 20, 2026
Subject: Allegations of STRS Reporting Discrepancies

You asked Ohio Retirement Study Council (ORSC) staff to comment on allegations regarding State Teachers Retirement System (STRS) reporting discrepancies, performance incentives, and budget increases. These allegations center on three separate issues:

- 1) A recently published *Journal of New Finance* paper that estimates a compounded difference of approximately \$9.3 billion between STRS audited and reported returns, and its impact on performance incentives;
- 2) Reported returns being reflected in ORSC investment return reports; and
- 3) STRS budgets using budget-to-budget changes rather than budget-to-estimated actual increases.

This memo will restate the claim made in allegations as we understand it and provide staff comments on those claims.

“Retirement at Risk: The Political Economy of Public Pension Governance” and Allegations of Investment Return Overstatements

A recently published paper, “Retirement at Risk: The Political Economy of Public Pension Governance” (enclosed) uses STRS as a case study to contribute to scholarship on governance issues, principal-agent models, and incentive misalignment. The paper argues that STRS overstates returns for the purpose of increasing performance-based incentives. STRS is used as a case study to advocate tying performance-based compensation exclusively to CPA-audited returns to address these issues.

In the case study, the paper contends that STRS overstated investment returns, for the purpose of increasing performance payments, by a compounded cumulative total of approximately \$9.3 billion for the 20-year period (2002-2022). According to the authors, the non-compounded figure equals \$4.8 billion. This \$4.8 billion figure is more relevant for staff review as it expresses the authors' calculation of the combined total difference between STRS "reported returns" versus the author's "derived returns" for this 20-year period.¹

These results are presented in Table 1 of the article. Staff were able to verify the "reported rate of return" for STRS—these figures are available in STRS financial reports and ORSC reports. For the "audited" column, whose figures are not in the audited STRS financial reports, the authors explain that their calculations:

"represent historic market-value investment returns calculated from two audited inputs: the market value of assets at the beginning of the fiscal year and at year's end."

And further, the:

"audited return figures used here are calculated from changes in the net fiduciary position, a market-value measure based on audited beginning- and end-of-year asset values."

The authors did not provide an example of their calculation or inputs. I reviewed STRS statements of changes in fiduciary net position and attempted to replicate the authors' calculation based on their description and a number of different inputs from the financial reports. I was unable to use the authors' explanation of their calculation to replicate their results. *Therefore, I was unable to independently verify the \$4.8 billion figure.* I can reach out to the authors and request a more formal explanation of their calculation.

Staff would note that the fiduciary net position of STRS encompasses much more than simply investment returns, including, most notably, contributions and benefit payments.

Staff Comments

Staff note the following methodological issues directly acknowledged by the authors:

¹ Mendenhall, Allen and Dan Sutter, "Retirement at Risk: The Political Economy of Public Pension Governance," *Journal of New Finance* (June 19, 2026).

- 1) The authors acknowledge “a significant methodological alternative” could reflect differences in the returns. A money-weighted measure, as the paper elects to use in its calculation, would “not adjust for the timing of cash flows in the manner that time-weighted return calculations would” and “a persistent gap could emerge mechanically, particularly in years with large net outflows such as the benefit payments that characterized the post-2008 period.”² STRS uses time-weighted rates of return in its Annual Comprehensive Financial Reports (ACFR).³ It is possible that this explains the difference in the authors’ calculation and STRS reported returns.
- 2) The authors acknowledge a methodological consideration involving the valuation of alternative assets. The authors note that alternative assets “are valued using appraisal-based methods that typically lag market movements by one to two quarters. In periods of sharp market decline, such as fiscal year 2022, audited net fiduciary positions incorporating mark-to-market public asset valuation may fall more rapidly than reported returns.”⁴ This too may have contributed to the difference in the authors’ calculation.

Finally, in response to the article, the constituent makes a claim regarding “two sets of books” and the 2022 special audit of STRS conducted by the State Auditor. From staff’s point of view this is more a question of which type of reporting is appropriate for its intended purpose. STRS investment reporting, as noted by the author, is in accordance with the standard recommended by the CFA Institute’s Global Investment Performance Standards (GIPS) for comparing investment manager performance across institutions. ORSC staff are not fiduciary counsel, but from staff’s perspective it appears completely appropriate to use the industry standard for investment manager performance to determine performance-based incentives.

The Auditor’s response to the differences in performance reporting and financial reporting is instructive:⁵

² Mendenhall and Sutter, 16.

³ See, for instance, page 53 from the STRS Annual Comprehensive Financial Report (available online at: <https://orsc.org/Assets/Reports/1539.pdf>).

⁴ Mendenhall and Sutter, 16.

⁵ Auditor of State, “State Teachers Retirement System of Ohio Special Audit,” 17-18. Available online at: <https://orsc.org/Assets/EventFiles/1116.pdf>

Fraud resulting from intentional overstatements of PE fair values would have required collusion among the three parties listed above, none of which receive performance bonuses from STRS.

Crowe's audit results also support that there was no manipulation of investment values.

A more reasonable explanation of this rumor of *intentionally* underreporting losses is that it requires up to three months after each June 30 for STRS to finalize certain investment results, especially PE fair value balances and earnings or losses. This lag was not unique to 2022 – it is the process used in preparing every fiscal year's financial statements. Also, note that some peers in the benchmarking comparison table above also describe a reporting lag. Other asset values such as stock, derive fair-value information the exchanges update virtually in real time, and requires less time to compile.

STRS prepares final *performance* reports after each fiscal year end. STRS follows GIPS standards for these reports, which require using the values *available* at month end. Generally accepted accounting principles (GAAP), which STRS uses in its ACFR, require using the values *earned* at month end. In some years, such as fiscal 2022, GIPS performance reports more favorable results than do the GAAP financial statements at June 30; however, the performance reports for GIPS capture the loss in the next period. In other years, the reverse occurs. For the year ended June 30, 2022, the best estimates of fair value as of June 30 required recording additional write-downs of \$670 million in September when values were finalized, which impacted GAAP reporting at June 30, but didn't impact GIPS reporting until September 30.

STRS recorded the following adjustments between its first closing and the investment fair values (rounded to nearest thousand) from the unaudited ACFR submitted to the AOS on November 23, 2022:

Investment fair values reported in July	\$87,615,530,000
Reclassification of real estate debt	+2,156,743,000
Reclassification of receivables and other liabilities	-311,598,000
PE lag adjustment	-670,428,000
Fair value reported to Board in October and submitted to the AOS	<u>\$88,790,247,000</u>

We conclude there were no delays in recording losses. STRS followed its established closing procedures, consistent with prior year closings.

Allegation that ORSC Overstated STRS Returns

The constituent suggests that ORSC provides inaccurate information in its investment performance reports. ORSC reviewed the reported investment returns for matching time periods in the RVK ORSC investment report and the STRS Annual Comprehensive Financial Report. As can be seen, there is no discrepancy between the RVK investment returns and the reporting from STRS, which is in accordance with GIPS standards.

	RVK Annual Total (gross) returns as of June 30	STRS ACFR Annual Total (gross) returns as of June 30
2015	5.45%	5.45%
2016	0.92%	0.92%
2017	14.29%	14.29%
2018	9.57%	9.57%
2019	7.13%	7.13%
2020	3.14%	3.14%
2021	29.28%	29.28%
2022	(-3.61%)	(-3.61%)

Staff find no reason to believe that ORSC provide overstated, or understated, returns.

Allegation Regarding STRS Budgets

The constituent stated that the budget-to-budget increases are different from estimated-actual to proposed budget increases. We have restated the constituents' allegation in a more formal and complete table.

Budget	FY26 Budget	FY26 Estimated Actual	FY27 Proposed	Budget to Budget Increase	Estimated Actual to Budget Increase
Operating	\$129,138,700	\$122,448,200	\$141,823,600	9.8%	15.82%
Capital	\$7,558,000	\$5,281,800	\$8,924,500	18.08%	68.97%
Total Combined	\$136,696,700	\$127,730,000	\$150,748,100	10.28%	18.02%

We concur with the constituents' calculations but would advise that the gray shaded "capital" and "total combined" cells are not useful or informative as capital budgets vary extraordinarily and do not inform on the operating cost of STRS. The "operating" figure's difference does highlight a fair question on how budgets are presented to the ORSC (highlighted in **rose**, with the constituent's suggesting bolded).

Neither figure is necessarily incorrect, though the estimated budget figure is more imprecise. One reflects budget-to-budget increases and the other reflects the best estimate of budget to estimated actual increases. It is a "best estimate" as it typically includes only six-months of actual spending at a retirement system. ORSC staff itself is

contemplating adding a “% over/under budget” to provide information to the ORSC on differences between what was budgeted versus estimated actual spending. This may allow ORSC to review cost savings or mid-year cost over-runs.

However, for purposes of ORSC budget review, staff still recommend focusing on budget-to-budget increases for the purpose of indicating to the ORSC the anticipated structural costs of the system and anticipated growth or decline of those structural costs, rather than operational issues related to how much was actually spent.