

## **OEA Retirement Systems Update**

### **Report to the OEA Board of Directors: May 2011**

### **Please distribute to other OEA members**

#### **Update on Pension Issues in Legislature**

Pension reform is expected to be one of the priority issues to be dealt with in the Ohio General Assembly this year. However, to this point, the issue has taken a back seat to the controversial passage of Senate Bill 5 and the discussion of the state budget. At this point, bills dealing with pension reform (House Bill 69 and Senate Bill 3) have been in a holding pattern. Neither bill has had public testimony for weeks as key legislators have been meeting behind-the-scenes to discuss a potential substitute bill.

In other legislation related to pensions, a provision in House Bill 153 (the budget bill) dealing with pension contributions has been removed from the bill. Governor Kasich's budget proposal included a shift of 2% of pension contributions from public employers onto public employees. This essentially represented a 2% cut in the take-home pay of public employees and would have hurt the solvency of the pension plans. A substitute version of the budget adopted by the House Finance and Appropriations Committee on Thursday, April 28, 2011 did not retain the proposed 12/12 contribution split. However, this proposal may very well be a part of the debate on pension reform legislation.

A bill dealing specifically with reemployed retirees has also been introduced but has not yet had a hearing. House Bill 202, sponsored by Representative Richard Hollington (R-Hunting Valley), would reduce the pension payments for public retirees who are reemployed in public employment covered by one of the state retirement systems. If earnings are greater than \$14,160, the pension amount would be reduced by \$1 for every \$2 in salary above that amount. HB 202 does not list any cosponsors and may not gain any traction in the legislature. However, some type of restrictions around reemployed retirees may become a part of broader pension reform legislation.

#### **Changes in Store for STRS Health Care**

At its meeting on Thursday, April 14, 2011, the STRS Board voted on a number of changes to the retiree health care program. The first action was to approve changing the premium subsidy received by benefit recipients by reducing the years of service multiplier from 2.5% to 2.1%. This change will be phased in at a rate of 0.1% per year, beginning in 2012 and continuing through 2015. For 2012, the multiplier will be 2.4%. As an example: a benefit recipient with 30 or more years of service currently pays 25% of the premium cost; STRS Ohio pays 75% (30 years x 2.5% = 75%). Under a 2.4% multiplier, STRS Ohio will pay 72% of the premium cost in 2012 (30 years x 2.4% = 72%) and the benefit recipient's portion will be 28%. By 2015, a benefit recipient with 30 or more years of service will pay 37% of the premium cost.

The second action by the Board affects future premiums for the AultCare, Kaiser and Paramount health care plans. This change will standardize the basis for the subsidy calculation across all plans. Beginning in 2012, the subsidies applied to these premiums will be further reduced based on the respective plan's full cost. This will result in a lower premium subsidy for the approximately 6,600 benefit recipients enrolled in these plans. Monthly premiums for 2012 for all health care plans will be available this summer.

These two changes are projected to reduce STRS' cost by \$22 million in 2012 and more than \$85 million annually once fully implemented. However, it was noted that further significant changes to the health care program will be needed in the future to prevent the health care fund from becoming insolvent. Currently, the projected life of the health care program extends to 2024. This fall, the board will continue its work on a strategic plan for health care that will examine the potential for major changes in coverage features, program eligibility and/or premium subsidies, while evaluating the impact of changes that may occur at the federal and state levels regarding health care.

The Board also approved continuation of the 2011 premium reimbursement amounts for Medicare Part B in 2012. The maximum reimbursement amount from STRS Ohio remains at \$52.83 per month for the 30-year retiree; the minimum amount of reimbursement is \$29.90 per month. Also, the "safety net" program for low-income retirees will continue in 2012 with the same coverage level, eligibility requirements and premium.

### **SERS Changes Investment Rate and Other Assumptions**

At its April Board meeting, the SERS Board voted to make a number of changes to the underlying assumptions of the pension plan. These changes were based on the recommendations of the Board's actuaries from Cavanaugh Macdonald and the results of their 2010 Five-Year Experience Study presented to the Board. This study examines SERS' demographic assumptions (such as rates of withdrawal, retirements, salary increases, and life expectancy) and economic assumptions (price inflation, investment returns, and wage inflation) over the last five years and compares those results with data over longer periods of time. Based on the results of this study, the actuary proposed changes in the following assumptions: withdrawal rates, disability, pre-retirement mortality rates, service retirement, real wage growth, price inflation, and rate of return (how much investments will grow over a fiscal year). The actuary proposed reducing the rate of return from 8.00% to 7.75%. By a vote of 6-1, the Board approved all of the recommendations.

These changes directly affect the funded status of the System's pension and health care funds. The unfunded liabilities of the pension fund grew by about \$400 million, dropping SERS' funded status from 73% to 71% with a period of 29 years needed to pay off the liabilities. On the health care side, because the amount of employer contributions necessary to fully fund pensions decreased slightly, more money can be devoted to health care. This means that the solvency period for SERS' health care fund was extended one year from 2018 to 2019.