

OEA Retirement Systems Update

Report to the OEA Board of Directors: June 2012

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Senate Passes Pension Reform Legislation

On Wednesday, May 16, 2012 the Ohio Senate passed a number of pension reform bills on a bipartisan basis. There are separate bills dealing with each retirement system. Each of the bills is jointly sponsored by Senate President Tom Niehaus (R-New Richmond) and Senate Minority Leader Eric Kearney (D-Cincinnati). Senate Bill 341 pertains to SERS and passed 33-0. Senate Bill 342 pertains to STRS and passed 31-2. Senate Bill 343 pertains to OPERS and passed 33-0. The Senators voting “no” on SB 342 were Keith Faber (R-Celina) and Tom Patton (R-Strongsville).

OEA supports the passage of this legislation and applauds the Senate for acting quickly to help secure the long-term solvency of the pension and health care benefits that our members will rely on in retirement. The legislation is drafted based on the most recent plans passed by the STRS, SERS and OPERS Boards. Each of the bills includes difficult changes that impact our members, particularly with STRS. However, the funding situation with STRS is critical. The funding period (the amount of time needed to pay off the unfunded liabilities of the plan) is infinite. Simply put, without changes of this magnitude, STRS will eventually run out of money to provide benefits. The proposed changes are likely to only get more costly with the passage of time.

While the Senate has now passed legislation, leaders in the Ohio House have indicated they will not act on pension legislation until after a study commissioned by the Ohio Retirement Study Council. That study is not anticipated to be completed until July which may move final action on this legislation until after the November election.

Below is a brief synopsis of the major provisions of the plans adopted by each retirement system:

STRS (Senate Bill 342)

Retirement Eligibility: Retirement with full benefits at age 65 with at least 5 years of service is maintained. Otherwise, beginning in 2015, the years of service needed to retire with full benefits gradually increases from 30 years to 35 years. After 2026, a member would need to have 35 years of service and be at least 60 years old for full benefits.

For early retirements, members could retire at age 60 with 5 years of service or with 30 years of service at any age. However, members who choose to retire early would have their benefits actuarially reduced.

Contributions: Increase in member contributions by 4% of pay phased in 1% a year beginning July 1, 2013 through July 1, 2016.

Cost-of-Living Allowance (COLA): The bill would lower the COLA rate for current retirees from 3% to 2% and have a freeze on increases for FY 2014. For future retirees (beginning August 2013), the COLA rate would also be 2%, but the first increase would come after 60 months of retirement.

Benefit Formula and Final Average Salary: Beginning in 2015, the formula would be 2.2% for each year of service and final average salary would be calculated on five years of salary rather than three. Those who are eligible to retire by July 1, 2015 but elect to continue working could receive no less of a base benefit than current law allows.

SERS (Senate Bill 341)

The SERS plan does not call for changes in contribution rates, COLA, formula or final average salary. The current fiscal condition of SERS does not warrant such changes. This is important due to the low wages of many educational support personnel and the low monthly pensions of the average SERS retiree.

Retirement Eligibility: Beginning August 1 2017, retirement eligibility with full benefits would be 10 years of service at age 67 or 30 years of service at age 57. A member could retire early with 10 years of service at age 62 or 25 years of service at age 60. Early retirements would be subject to an actuarial reduction of benefits. Members who would have at least 25 years of service by 2017 are grandfathered from these changes.

OPERS (Senate Bill 343)

The changes proposed are designed in order to continue contributions toward a meaningful health care benefit for current and future OPERS retirees. The OPERS plan divides employees into three groups. Those who are within five years of retirement (Group A) or between five and ten years from retirement (Group B) are grandfathered from some of the proposed changes.

Retirement Eligibility: For Group B, eligibility for full benefits increases to 31 years of service and age 52, 32 years of service at any age, or five years of service at age 66. For Group C, eligibility for full benefits increases to 32 years of service at age 55 or five years of service at age 67. For both groups, early retirements result in actuarially reduced benefits. Group A is grandfathered into current eligibility requirements.

Formula and FAS: For Group C only, the formula would be 2.2% for the first 35 years and 2.5% for each year thereafter with FAS calculated on the five highest years of salary (up from 3).

Cost-of-Living Allowance (COLA): The COLA would remain 3% for current retirees. For those retiring after the bill's effective date (Groups A, B and C) the COLA would be the increase in the Consumer Price Index (CPI) capped at 3%.