

OEA Retirement Systems Update **Report to the OEA Board of Directors: August 2012**

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House Subcommittee Continues Hearings on Pension Reform

The House Subcommittee on Retirement and Pensions, chaired by Representative Kirk Schuring (R-Canton), is continuing to hold hearings on pension reform legislation. In May, the Ohio Senate took action to pass pension reform plans proposed by STRS (SB 342), SERS (SB 341) and OPERS (SB 343) on a bipartisan basis. Leadership in the House had stated that they would not act on pension legislation until the Ohio Retirement Study Council had received a report from the actuarial firm it had consulted with to review the pension reform plans of the Ohio retirement systems. That report was presented on July 11, 2012 and Chairman Schuring began hearings the following week.

The report to ORSC, authored by Pension Trustee Advisors and KMS Actuaries, states that passage of the plans contained in legislation (SB 341, 342, 343) would put each of the retirement systems in a much more solid financial position. Further, the report urges legislative action stating, “the changes proposed now are appropriate and significant. We see no valid reason for delay.”

The report also noted that recent poor investment returns and potential poor investment returns in the future would likely require additional benefit reductions. To deal with this, the report suggests either giving authority to the retirement boards to make future benefit changes or “providing greater cuts than currently needed to provide a margin for future adverse experience.” **OEA opposes additional cuts and instead urges adoption of the consensus-based, bipartisan legislation passed by the Ohio Senate.** These bills include some measure of Board discretion to make adjustments in the future if due to unforeseen adverse experience.

Schuring’s subcommittee has already heard testimony from the author of the actuarial report as well as representatives from SERS and OPERS. A hearing is scheduled for August 8, 2012 to hear from representatives of STRS as well as sponsor testimony. Five additional hearings are scheduled from August 15 through September 5 for public testimony. It is expected that the House is preparing for a vote on the legislation during the week of September 10th. Schuring and Senate President Tom Niehaus (R-New Richmond) have stated that they coordinate with each other to try and avoid the need for a conference committee if changes are made to the bills.

Treasurer Makes Appointment to STRS Board

On July 16, 2012, Treasurer of State Josh Mandel announced Yoel Mayerfeld as his appointment to the STRS Board. Mayerfeld is the Managing Director of Chase Properties, a company headquartered in Beachwood, Ohio. The company specializes in developing and acquiring community shopping centers in the eastern half of the United States. Mayerfeld was appointed

to complete the term of Dr. Daniel Martin who resigned from the Board in April. His term will conclude on January 7, 2014.

OPERS Considering Changes to Retiree Health Care

The OPERS Board will be considering changes to its health care program for current and future retirees by the end of the year. The passage of health care reform legislation (SB 343) is critical for OPERS to continue to offer health care. If legislation is not passed in 2012, OPERS estimates a need to reduce health care expenditures by nearly 70% and by 2014 will no longer be able to provide a health care plan for many current retirees, their dependents and future retirees.

Even with passage of SB 343, the OPERS Board will still be considering significant changes. The proposed changes in pension benefits would allow for 4% of payroll from employer contributions to be allocated towards health care going forward. However, the current program is estimated to cost 7.6% of payroll. Some of the changes being considered by the Board include: limiting eligibility to those who retired with 30 or more years of service or are age 60 with at least 20 years of service; reducing monthly allowances; eliminating both allowance and access to health care for spouses; eliminating Medicare B reimbursement; no longer sponsoring a Medicare plan but providing an allowance to find coverage on the market.

The OPERS website provides a PowerPoint presentation with voiceover narration that outlines proposed changes. Additionally, the website has a link to a survey about proposed changes to health care. OPERS will be tabulating survey responses and sharing them with the Board this fall as they consider changes to the health care plan. This is an important way for members to give feedback. OPERS is asking for the survey to be completed by the end of August. Links to both the presentation and health care survey can be found at www.opers.org

Summary of Pension Reform Bills

Below is a brief synopsis of the major provisions of the pension reform legislation passed by the Senate:

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%.