

OEA Retirement Systems Update

Report to the OEA Board of Directors: October 2012

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Passage of Pension Legislation Brings New Retirement Considerations

Recent passage of pension reform legislation (SB 341, 342 and 343) was needed in order to help secure the long-term solvency of the retirement benefits that our members rely upon. However, these were difficult changes. This represents the first time in Ohio history that pension benefits were decreased. The changes affect individuals differently depending on which system they belong to, their age, years of service and other factors. For many, this means working longer. For those who are currently eligible to retire or in the latter stages of their careers, the changes may raise questions about when to retire.

There are many factors that go into retirement planning. Not the least among these factors are job satisfaction and whether an individual can afford to retire. Retirement likely means a significant reduction in income and increased health care costs. However, we want members to have timely and accurate information in order to make these decisions. Below are some considerations raised by the new rules coming into effect. **This is not intended as retirement advice.** Members are encouraged to contact their retirement system for additional information and retirement scenarios based on their individual circumstance.

STRS (Senate Bill 342):

STRS Members Currently Eligible to Retire: Changes in the cost-of-living adjustment (COLA) go into effect in July 2013. Members who retire any time before July 1, 2013 will not receive a COLA during the 2014 fiscal year (July 1, 2013–June 30, 2014). Members who retire effective July 1, 2013 will not receive a COLA on July 1, 2014. After missing one COLA, retirees will resume COLAs at 2% per year. Those who retire AFTER July 1, 2013 will not receive a cost-of-living adjustment (COLA) for 60 months. This delay results in a significant loss of lifetime retirement earnings.

Changes in the benefit formula go into effect in 2015. The current 35-year enhanced benefit formula will be eliminated after July 1, 2015 and those who have not reached 35 years of service at that point will not be eligible. Teachers reaching 35 years of service as of August 1, 2015 or later will receive 77% (35 x 2.2%) of their final average salary as a pension. Members who are eligible to retire on July 1, 2015 will maintain retirement eligibility if they continue working and the benefit will be the greater of:

- (a) The benefit calculated upon retirement under the new benefit formula, or
- (b) The benefit as of July 1, 2015 under the current formula.

STRS Members Nearing Retirement Eligibility: Changes in retirement eligibility begin in 2015 and are phased-in over time. Those who fall short of being eligible to retire as of July 1, 2015 will become eligible according to the following charts:

Unreduced Benefit for Retirement Between:	Minimum Age and Years of Service
Now-7/1/2015	Any age and 30 years of service
8/1/2015-7/1/2017	Any age and 31 years of service
8/1/2017-7/1/2019	Any age and 32 years of service
8/1/2019-7/1/2021	Any age and 33 years of service
8/1/2021-7/1/2023	Any age and 34 years of service
8/1/2023-7/1/2026	Any age and 35 years of service
8/1/2026	Age 60 and 35 years of service

Members may also retire with full benefits at age 65 with at least five years of service credit. The chart below shows eligibility for early retirement. Early retirements will be subject to an actuarial reduction in benefits.

Actuarially Reduced Benefit* for Retirement Between:	Minimum Age and Years of Service
Now-7/1/2015	Age 55 and 25 years of service
8/1/2015-7/1/2017	30 years of service or age 55 and 26 years of service
8/1/2017-7/1/2019	30 years of service or age 55 and 27 years of service
8/1/2019-7/1/2021	30 years of service or age 55 and 28 years of service
8/1/2021-7/1/2023	30 years of service or age 55 and 29 years of service
8/1/2023	30 years of service
8/1/2015	Age 60 and 5 years of service

STRS Members with Purchasable Service Credit: Effective January 1, 2014 members will pay the full projected liability created by the purchase of service. This could result in costs two-to-four times higher than under the current rates. For service credit certified with STRS by December 31, 2013, members will have until June 30, 2014 to purchase the credit at current cost. Members currently purchasing under a payroll deduction plan can continue to complete their payoff at their current rate.

For review, below is a summary of the major changes made by SB 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 (FAS): 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)

OPERS Members Currently Eligible to Retire: Those OPERS who are eligible to retire in the next five years are in “Group A” and grandfathered from the majority of changes made in SB 343. One exception is the change in cost-of-living allowance (COLA). Those who retire prior to the bill’s effective date (January 7, 2013) will receive an annual COLA of 3%. Everyone who retires after that point will have their COLA based on the Consumer Price Index (CPI) not to exceed 3%. In addition to the pension changes contained in SB 343, OPERS is making changes to its health care program that affects those who retire prior to January 1, 2014 differently than those who retire after that point. More information on the OPERS health care changes is provided later in this update.

Those who are contemplating retiring prior to the January 7, 2013 effective date of new legislation must be off their employer’s payroll by the end of the year. OPERS needs a valid, completed retirement application by the close of business Jan. 4, 2013 if applying using paper forms, or by midnight Jan. 6, 2013 if applying online.

Below is a summary of the major changes in SB 343.

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%. The effective date of the bill is January 7, 2013.

OPERS Adopts Changes for Health Care Program

At its September Board meeting, the OPERS Board voted to make substantial changes to the OPERS health care program. The changes were necessary because the current level of OPERS health care benefits is estimated to require 7.6% of payroll in order to be sustained. The recently passed pension legislation for OPERS (SB 343) is estimated to allow for 4% of payroll, from the employer contribution, to be dedicated to health care going forward. The Board voted to make a number of changes beginning in January 2014. Some of these changes are phased-in over time. Below is a listing of some of the major changes:

- Access to health care coverage limited to those with 30 years of service or those 60 years or older with at least 20 years of service. This applies to those who retire after January 1, 2014. Those who retire prior to that date are grandfathered and retain eligibility with at least 10 years of service credit.
- The premium subsidy will be based on a chart that factors in years of service and age at retirement. Subsidy percentages range from 51% to 90%. Current retirees will transition to new rates over a three year phase-in period. Current retirees will have a minimum subsidy rate of 75% if they are receiving a 75% or greater subsidy now.
- No subsidy for spouses. Beginning in 2019, spouses under 65 will not have access to OPERS health care coverage.
- Phase-out of Medicare Part B premium reimbursement.

Changes in OPERS pension and health care benefits may cause members who are eligible to retire or will soon be eligible to retire to question the timing of their retirement or re-evaluate their plans. There can be significant differences in health care eligibility and subsidy levels for those who retire before January 1, 2014 and those who retire afterwards. These changes are complex; and there are many factors to consider in making retirement decisions. OPERS has detailed information about the health care changes on its website www.opers.org. Members are encouraged to review this information and contact OPERS at 1-800-222-PERS (7377) with individual questions.