

## **OEA Retirement Systems Update**

### **Report to the OEA Board of Directors: March 2013**

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

#### **OEA Endorses McGreevy and Stein for STRS Board**

The Ohio Education Association has endorsed **Jim McGreevy** and **Bob Stein** for re-election to the STRS Board for the seats representing retired teachers. The election for these Board seats will begin in April. Additionally, OEA endorsed Carol Correthers for re-election to the Board representing active teachers. Because she was unopposed, no election will be held for the active teacher seat this year.

**Jim McGreevy** is a retired teacher from Zanesville. He was elected to the STRS Board in 2009 and served as Chair of the Board in 2011-12. Jim is a former member of the OEA Board of Directors. During his tenure on the STRS Board, he has provided thoughtful, prudent leadership.

**Bob Stein** is a retired teacher from Strongsville. He was elected to the STRS Board in 2009. In addition to 27 years of teaching, Bob has broad investment and business experience. More information is available at [www.bobstein.us](http://www.bobstein.us).

OEA's endorsed candidates are committed to providing:

- Secure and lasting pension benefits
- Access to quality health care
- Experienced and prudent leadership

Current STRS benefit recipients (retirees) should look for their ballot in early April. Votes must be cast by May 6, 2013. There are four candidates for the two seats on the STRS Board. OEA urges retired teachers to vote for Jim McGreevy and Bob Stein.

#### **STRS Board Approves Changes to Defined Contribution and Combined Plans**

The STRS Board has voted to approve several changes that will affect members enrolled in the Defined Contribution (DC) Plan and the Combined Plan. These changes include an increase in what is known as the "mitigating rate." This rate is the portion of the employer contribution that is used to help pay off the unfunded liability of the Defined Benefit (DB) pension plan. The STRS Board has discretion to set this rate, as determined by the board's actuary, to offset the financial impact of DC participation. Beginning July 1, 2013, the mitigating rate will increase from the current 3.5% of pay to 4.5%. This amount comes from the 14% of pay contributed by the employer.

Due to the passage of Senate Bill 342 last year, beginning July 1, 2013, all STRS enrollees will see their employee contributions increase from 10% to 11%. For members in the DC plan, the additional 1% goes into their account. The increase in the mitigating rate will keep the total contribution to the account the same (20.5%). For those enrolled in the combined plan, the 1%

contribution increase will go towards paying for the defined benefit portion of the benefit, rather than their DC account.

The Board also voted to make changes to the investment options available under the DC and Combined Plans. Eight new investment choices were added, including a number of “target date” funds where asset allocations change over time to match an anticipated retirement date. Investment fees were lowered on the majority of investment options.

For new enrollees in the DC Plan, the Board also approved a change to the vesting period for employer contributions. For those who enroll after July 1, 2013, the employer contributions will vest 20% per year—fully vested after five years. Full vesting of employer contributions is after one year for those currently enrolled in the DC Plan.

A final change made by the Board deals with the employer contribution for re-employed retirees. Those who are retired through a state retirement system and return to work in a position covered by STRS contribute to an annuity rather than a pension benefit. Beginning July 1, 2013, there will be no employer matching funds to the annuity. The employer contribution will be used to pay down the unfunded liability of the pension plan. Any matching funds accrued prior to this date will remain credited to the individual’s annuity.

### **STRS Health Care Program Shows Improved Funding Status**

At the February meeting of the STRS Board, the system’s actuarial consultant firm presented an actuarial valuation of the STRS health care plan. The report showed a tremendous increase in solvency of the health care fund. The fund is now projected to be solvent until 2060 using an investment return assumption of 6.5%. This is an increase of 21 years of solvency from the last valuation. When an assumed rate of return of 7.75% is used, the plan is projected to be solvent indefinitely and fully funded in less than 30 years. The improved long-term funding of the health care plan was a result primarily of positive investment returns (12.9%) and decreased plan costs.

Obviously, a number of assumptions are used in projecting plan solvency. This includes investment returns, payroll growth and medical inflation. As the actual results of these factors fluctuate, so too does the projected solvency of the health care plan. As a result, the STRS Board will continue to monitor and make changes to the health care plan. However, the strengthened position of the plan is very positive news.

### **Cost Increasing for Purchased Service Credit**

Passage of pension legislation has resulted in a number of changes to the price of purchasing service credit through the public pension systems. Generally, the price to members purchasing many types of credit will increase to more accurately reflect the true actuarial costs. Otherwise, those who purchase credit at reduced rates are in essence subsidized by the other members of the retirement system.

For OPERS, there is a narrow window of time before these pricing changes take effect. OPERS members can make purchases at the current rates if they initiate the transaction prior to July 7, 2013. They will have until July 7, 2018 to complete the purchase before the cost is recalculated. After this period, OPERS members would be required to pay the full actuarial costs for several types of credit including out-of-state service and leaves of absence.

For STRS, members will pay the full projected actuarial cost of purchased service credit effective January 1, 2014. 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 SERS, an employee is required to pay both the employee and employer contributions plus interest to purchase Leave of Absence service credit. Service credit may be purchased for multiple leaves of absence. The total years purchased cannot exceed five years, and the maximum amount of service that may be purchased for a period of leave is two years.

If you have specific questions about purchasing service credit, contact the retirement system of which you are a member.

### **Board Travel Expenses for SERS Scrutinized**

Members of the School Employees Retirement System Board have come under public scrutiny for a recent decision to send three members of the SERS Board to a conference in Hawaii this May. The Ohio Retirement Study Council (ORSC) voted on Tuesday, March 5, 2013 to send a letter to the SERS Board urging them to reconsider the decision. Information provided to the ORSC by the retirement systems indicates that SERS has the highest expenses for Board travel, outpacing the other four retirement systems combined.

SERS has posted a statement on its website defending the expenses as Board education, not a vacation. The costs associated with the conference are significantly less than the same conference the prior year that was held in New York. However, the SERS Board is expected to revisit the decision at its next meeting to be held on March 21-22.