

OEA Retirement Systems Update

Report to the OEA Board of Directors: March 2012

Please distribute to other OEA members

Senate Leadership Indicates Spring Timeline for Pension Reform

Through conversations with the directors of the state retirement plans and in subsequent public comments, the leadership of the Ohio Senate has indicated a willingness to move pension legislation this spring. Senate President Tom Neihaus (R-New Richmond) and Senator Keith Faber (R-Celina), Chair of the Ohio Retirement Study Council (ORSC), stated the Senate may act on pension changes proposed by the retirement system boards if there is stakeholder support for those plans. The Senators suggested plan modifications which include smoothing the impact of when changes take effect in order to reduce eligibility cliffs and allowing the boards to have some discretion to make plan changes without the need for passing further legislation.

However, the leadership of the House has not indicated a change in their timeline and is likely to wait until after the actuarial review of the plans that ORSC has commissioned. That report is not expected until July. This likely means that pension reform legislation would not be enacted until after the November election at the earliest.

Retirement Boards Make Adjustments to Plans

In response to suggestions to make changes to their plans, and in recognition that several years have passed since some of the plans were proposed in 2009, the STRS, SERS and OPERS Boards have made, or are considering, some plan revisions. Below is a summary of those changes or discussions. Again, it is essential to note that all of the changes outlined below require a change in state law. The retirement systems can only make recommendations for legislative action, and all plans are subject to change in the legislative process.

STRS: At a special meeting on Friday, March 2, 2012, the STRS Board voted to change a number of actuarial assumptions of the pension plan. This action was a product of a three-year experience review by the Board's actuarial firm, PricewaterhouseCoopers. The most significant change is a reduction in the assumed investment return from 8% to 7.75%. The change in assumptions adds over \$2.3 billion to the unfunded liabilities of the pension plan. It also adds 4.7 years to the funding period (the time required to pay off the unfunded liabilities) calculated on the Board's current proposal. This increase extends the funding period beyond 30 years--the level called for in state statute. Additionally, changes in COLA and contribution rates proposed for 2012 will be postponed one year because no legislation has been enacted. This too adds to the unfunded liability and the funding period.

In response to objections to the Board's plan by the OEA, other stakeholder groups as well as legislators, the Board is examining a different phase-in for retirement eligibility changes. The current plan has an "eligibility cliff" adding seven or eight years of work for those who fall just short of retirement in 2015. The Board has directed staff to study revisions to the plan to smooth this transition period for those nearing retirement. There will likely be changes to the proposed COLA benefit. One proposal discussed was a cap on the benefit where a 2% COLA would be paid only on the first \$50,000 of the base benefit. The Board asked for information on a one-year suspension of the COLA. Other changes examined included assuming a gradual increase to 14% employee contributions and a faster collection of that increase. Members of the Board spoke against any increase in annual employee contributions greater than 1%. The Board also passed a motion to approve the concept of seeking Board authority to adjust plan design in the future without the need for legislative change. Such authority could include adjustments to age

and service eligibility, employee contributions, benefit formula, COLA and Medicare B reimbursement. The Board is expected to consider changes to its proposed plan at its regular Board meeting on March 22-23.

SERS: At its February Board meeting, the SERS Board adopted a number of changes to its pension reform proposal. The plan passed by SERS in 2009 only made changes to retirement eligibility and called for changing the eligibility for retirement with full benefits to age 67 with 10 years of service or age 57 with at least 30 years of service. The effective date of this change had been proposed for August 1, 2015. The Board voted to move this date back two years to August 1, 2017. Further, the plan would grandfather anyone who had at least 25 years of service credit by the effective date (essentially those with 20 or more years of service at present provided they continue service). Those with fewer than 25 years of service credit would be able to retire under the provisions of current law provided they pay the actuarial cost of the benefit. Further, the Board is seeking flexibility to adjust age and service requirements based on the results of an actuarial experience study every five years.

OPERS: At its February Board meeting, the OPERS Board voted to make a number of changes to its proposed plan. First, in the area of retirement eligibility, the new plan would slightly increase age and service requirements for those who are between five and ten years away from retirement eligibility on the effective date of legislation. Under the original plan, these members (referred to as “Group B”) were grandfathered from changes to age and service eligibility. The new plan would move eligibility to 31 years of service at age 52 or 32 years of service at any age. Those in “Group C,” new hires and those who are more than 10 years from retirement eligibility would have no change in eligibility from the Board’s initial plan (age 55 and 32 years of service).

Other plan changes adopted by the Board include an anti-spiking provision, a transition in changes in the minimum earnable salary to earn full-time service credit and a recommendation to give the Board discretion to make future changes in areas such as eligibility, contribution rates and COLA.

No STRS Board Election in 2012: Myers Re-elected to Seat

There will be no election for the STRS Board held this year as only one candidate qualified for the ballot. Tim Myers, a current member of the STRS Board and OEA’s endorsed candidate, was the only candidate to submit nomination petitions for the position. State law allows there to be no formal election for a Board seat when there is not a contested race. OEA would like to thank members who circulated or signed a petition and congratulate Tim Myers on winning another term on the STRS Board.

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