

# OPERS Update

Recommended Pension  
Plan Changes and  
Legislative Update

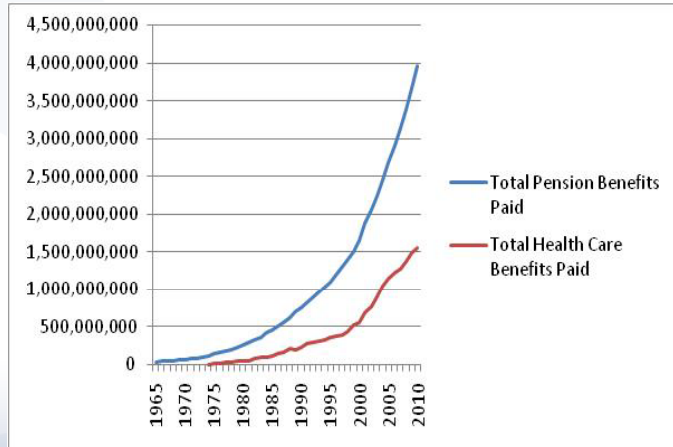
October 20, 2011



What Are The Reasons for the Board's Proposed Benefit Changes in 2009?

- **Our retirees are living longer in their retirement years**
- **Growth of retirees as baby boomers grow older**
- **Increases in pension and health care benefits paid as the number of retirees grows**
- **Elimination of the unfair subsidization of benefits for subsets of our members**
- **Encouragement for member engagement in their retirement planning**
- **The economic environment in Ohio and the country**

## How Does This Impact OPERS Funding?



3

## GOAL:

### Finding The Right Balance

**More Than Needed**

**May cause undue hardship on members**

**Less Than Needed**

**May create need for more drastic changes later**



**Key to Achieving Balance → Incremental Changes Over Time**

4

## Key Funding Measures

- **Funded Ratio** – the ratio of assets accumulated to pay pension benefits to corresponding liabilities
- **Amortization years** – reflects how long it will take to fund our unfunded liabilities based on expected inflows and outflows

5

## Recent Changes In Key Funding Measures

	2007	2008	2009	2010
<b>Funded Ratio</b>	96%	75%	75%	76%
<b>Amortization Years</b>	14	30 *	30*	29*
<b>Health Care Solvency</b>	31 years	11 years	11 years	11 years

*\* In order to stay within 30 years of funding, OPERS adopted a schedule of decreasing health care funding down to 0% by 2014, which means the assets in the healthcare fund would run out within approximately 11 years.*

6

## Contribution Rate Allocation Changes To Retain 30-Year Funding

	Pension	Health Care	Total
2009	8.5%	5.5%	14.0%
2010	9.0%	5.0%	14.0%
2011	10.0%	4.0%	14.0%
2012	10.0%	4.0%	14.0%
2013	13.0%	1.0%	14.0%
2014 and beyond	14.0%	0.0%	14.0%

*Goal is to restore health care funding to 4% for all years, but this would require significant reductions in liabilities.*

7

## Age & Service Eligibility

### CURRENT

#### GENERAL

**Unreduced** – any age/30 years of service or age 65/5 yrs

**Reduced** – age 55/25 yrs of service or age 60 w/5 yrs

#### LAW

**Unreduced** – age 48/25 yrs of service or age 62/15 yrs

**Reduced** – age 52/15 yrs

#### PUBLIC SAFETY

**Unreduced** – age 52/25 yrs of service or age 62/15 yrs

**Reduced** – age 48/25 yrs or age 52/15 yrs

### LEGISLATIVE PROPOSAL

#### GENERAL

**Unreduced** – age 55/32 years of service or age 67/5 yrs

**Reduced** – age 57/25 yrs of service or age 62 w/5 yrs

#### LAW

**Unreduced** – age 50/25 yrs of service or age 64/15 yrs

**Reduced** – age 48/25 yrs or age 54/15 yrs

#### PUBLIC SAFETY

**Unreduced** – age 54/25 yrs or 64/15 yrs

**Reduced** – age 50/25 yrs or 54/15 yrs

8

## Benefit Formula

CURRENT	LEGISLATIVE PROPOSAL
<p><b>GENERAL</b>  <b>Unreduced</b> – 2.2% x FAS for first 30 yrs of service, 2.5% thereafter</p>	<p><b>GENERAL</b>  <b>Unreduced</b> – 2.2% for all yrs of service up to 35; 2.5% thereafter</p>
<p><b>LAW</b>  <b>Unreduced</b> – 2.5% x FAS for the first 25 yrs of service; 2.1% thereafter  <b>Reduced</b> – age 52 and 15 yrs of service - 1.5% x FAS x yrs of service</p>	<p><b>LAW</b>                      No change to benefit formula</p>
<p><b>PUBLIC SAFETY</b>  <b>Unreduced</b> – 2.5% x FAS for the first 25 yrs of service; 2.1% thereafter  <b>Reduced</b> – age 52 and 15 yrs of service - 1.5% x FAS x yrs of service (<i>no age reduction factors apply</i>)  <b>Reduced</b> – age 48 and 25 yrs of service - 2.5% x FAS x yrs of service (<i>age reduction factors apply</i>)</p>	<p><b>PUBLIC SAFETY</b>                      No change to benefit formula</p>

9

## COLA

CURRENT	LEGISLATIVE PROPOSAL
<p>Percentage – 3% simple COLA                      COLA begins 12 months after retirement</p>	<p><b>GENERAL</b>                      COLA = CPI, not to exceed 3%                      COLA begins 12 months after retirement</p>

10

## COLA Transition

Effective date of legislation		End of 5 yr transition period
Current retirees	3% (no change)	3% (no change)
Members retiring with effective dates during 5 yr transition period	<p>3% until end of 5 yr transition period following legislation</p> <p>Legislation would remove vesting in 3% COLA effective immediately</p>	All COLAs after end of 5 yr transition period equal to CPI not to exceed 3%
Members retiring after end of 5 yr transition period	N/A	All COLAs equal to CPI not to exceed 3%

11

## FAS

CURRENT	LEGISLATIVE PROPOSAL
3-years FAS	5-years FAS

12

## Transition Plan (Age & Service Eligibility, Benefit Formula, COLA & FAS)

**How we transition to this new plan will be important. The Board recommended the following three-group phase-in once legislation is passed. This will ensure adequate notice of the transition to our members.**

**Group A** – Must be eligible to retire within five years after the effective date of the legislation.\* *Grandfathered under current plan design except for COLA provision.*

**Group B** – Must be eligible to retire within 10 years after the effective date of the legislation or have attained 20 years of service credit prior to the effective date.\* *Grandfathered under current plan design except for COLA provision and for those seeking an early retirement their pension will be reduced to reflect longer life expectancies.*

**Group C** – All others and new hires after the effective date of the legislation. *All elements of the new plan design apply.*

*\*To be counted toward determining group eligibility, all service purchases must be completed during the applicable transition period.*

13

## Additional Proposed Items

Cost to purchase service credit will be actuarially neutral.
Age reduction factors for early retirement determined by actuary, not statute
Minimum benefit calculation (\$86 per year x years of service) will be eliminated.
Intersystem transfers will be actuarially neutral.
Minimum earnable salary increased to \$1,000 with index.
Establishes a statute of limitations on membership determinations.
Limits retroactive benefit effective date to within 90 days of application receipt date.
Grants Board authority to establish mitigating rate.
Disability program changes
New hires as of the effective date of legislation would be under new package.

14

## Funding Impact

	Amortization
✓ Purchase Service Credit actuarially neutral	
✓ Increase Minimum Earnable Salary to \$1,000 per month	
✓ Establish Membership Determination statute of limitations	
✓ Board authority to establish mitigating rate	
✓ Disability changes	
✓ Retirement Age Eligibility/Benefit Formula/FAS/COLA (Alternative Plan Design)	
✓ Change RMA vesting schedule to 5 years *	
<b>Estimated Total Impact</b>	<b>Estimated 13.4 years</b>

*\*Does not require statutory authority for change*

15

## H.B. 69

- Pension legislation introduced in the House – 2/1/11
- Bill is a “placeholder” and currently contains the Systems’ recommendations
- Sponsor testimony given – 2/2/11
- OPERS testimony – 2/22/11
- 11 hearings held
- Hearings are currently suspended



16

## S.B. 3

- Pension Legislation introduced in the Senate on 2/1/2011
- Bill is a duplicate of HB 69 and serves as a “placeholder” and currently contains the Systems’ recommendations
- Sponsor testimony given 2/22/2011
- OPERS testimony on 3/24/2011
- Hearings are currently suspended



17

## Other legislation impacting OPERS

### H.B. 1– Enacted (Effective 3/1/11)

- Authorizes the Governor to establish a non-profit corporation (“JobsOhio”) to perform state economic development functions as directed by the Act and pursuant to a contract with the Ohio Department of Development.
- Transfers certain Department of Development functions to the JobsOhio entity and provides that public employees performing these functions for the new entity are no longer members of OPERS.

18

## Other legislation impacting OPERS

### **H.B. 153 – Enacted (Effective 6/30/11)**

- Retains the current employer and employee contribution rates for Ohio's retirement systems. The introduced version of the bill required a 2% reduction in the employer contribution and a 2% increase in the employee contribution.
- Retains the authority of the Ohio retirement system boards to set contribution rates within a specified ranges.
- Includes several initiatives that would "privatize" public functions, such as the sale of five Ohio prisons.

19

## H.B. 153 - State Budget Legislation

- **Proposed a reduction in the employer contribution rate (from 14 to 12%) and an increase in the employee contribution rate (from 10 to 12%) and removed the Board's discretion to set law enforcement and public safety rates.**
- **OPERS opposed this provision because it would have added at least 5.5 years to our amortization period, which would put the system outside the statutory 30-year amortization requirement.**
- **Due to the reduction in the state and local workforce as a result of the efforts to privatize certain government functions, our actuary determined that, for every 5,000 public employees that are removed from the state or local payroll, OPERS would experience a one-year increase in amortization years.**
- **Through a coordinated effort with our members and retirees, our stakeholder groups, and our direct discussions with House and Senate leadership and the Administration, we were successful in keeping the contribution shift out of the budget bill. However, we expect that the proposal will surface again this fall in the pension legislation currently pending.**

20

## Other legislation impacting OPERS

### **H.B. 202 – Pending in House Health & Aging Committee**

- Imposes a limit on the earnings that a reemployed retiree could earn upon returning to public employment.
- Requires an offset of the retiree's benefit if the earnings from public employment are in excess of the limit.
- OPERS is currently reviewing the bill.

21

## Other legislation impacting OPERS

### **S.B. 5 – Enacted (Signed by the Governor 3/31/11)**

- Makes various changes to the laws concerning public employees, including collective bargaining, salary schedules and compensation, layoff procedures and leave.
- Prohibits a public employer from paying an employee's contribution to an Ohio retirement system (e.g. referred to as "fringe benefit pick-up").
- Referendum vote to support or repeal the legislation is on the November ballot.

22

## Other legislation impacting OPERS

### **S.B. 20 – Reported out of Senate Government Oversight & Reform committee**

- To require the termination of a disability benefit of a state retirement system member convicted of certain felonies while serving in a position of honor, trust or profit if the disabling condition arose out the commission of the felony.
- Contents of bill was recently enacted in H.B. 123 (Bureau of Workers' Compensation budget)

23

## Ohio Retirement Study Council (ORSC)

- **ORSC is the oversight body for all five Ohio retirement systems**
- **In May 2009, ORSC requested each system submit plan design changes for long term sustainability and, in November 2009, the OPERS Board of Trustees approved a series of plan design changes.**
- **In May 2011, ORSC established a subcommittee to issue an RFP to provide an independent actuarial review and consultation. An RFP was issued in July and six (6) consultants have submitted proposals.**
- **Public hearings may be scheduled across the state this fall to hear comments from the public about pension benefits offered to public employees.**
- **OPERS will communicate the location, date and time of the meetings to encourage members to attend and voice their support for their pension plan and the plan design changes recommended by the OPERS Board.**

24

## Our Action Plan for the Remainder of 2011

- Continue communication to members, retirees and stakeholders, and members of the Ohio General Assembly, and Congressional delegation on the value that OPERS provides the state of Ohio and the need for retirement security and health care coverage.
- Provide information and comments to the consultant selected by the ORSC for the scope of the RFP review.
- Follow legislative hearings on H.B. 69 and S.B. 3 when they reconvene this fall and provide testimony as needed; encourage members to testify and contact their legislative members.
- Continue to update PERSpective, the OPERS blog; Facebook and Twitter sites and [www.opers.org](http://www.opers.org) to communicate key messages to our membership.
- Continue email blasts to membership when important updates occur- 300,000 email addresses so far. Go to MBS to sign up and keep your email address current.
- Special Edition Newsletter - will be mailed at the end of July.

25

## OPERS Preparation Occurring Now for Pension Design Changes Once Legislation Passes

- **Our goal: To effectively communicate all legislative changes, provide accurate information to members, retirees and employers, and assure timely distribution of information to avoid confusion, a “rush to the door” or decisions that are made in haste**
- **Internal work teams have been meeting to prepare:**
  - ✓ IT systems for changes that need to be programmed
  - ✓ Update educational and retirement materials
  - ✓ Revise OPERS website and MBS
  - ✓ Provide employer outreach on changes
  - ✓ Revise Administrative Rules as necessary
  - ✓ Update other key processes as needed

26

OPERS Preparation Occurring Now for Pension Design Changes Once Legislation Passes - continued

- **Staff is developing a comprehensive member, retiree and employer communication plan, including:**
  - ✓ **Special and regular newsletter updates**
  - ✓ **Webinars**
  - ✓ **Live and virtual “town hall” presentations across the state**
  - ✓ **Email blasts for timely updates (sign up through MBS)**
  - ✓ **Complete coverage on [www.opers.org](http://www.opers.org) , Facebook, PERSpective blog, Twitter**
  - ✓ **Sharing materials and information with stakeholder organizations, employers and interested parties**
  - ✓ **Training and resource development tools**

27

Thank you for supporting OPERS!

Questions?

28