

To: OFT Officers, Executive Committee
From: OFT President Sue Taylor
Re: STRS recommendation for changes to pension

The economic downturn has not affected our pension systems' ability to pay benefits in the short term. However, the decreased value of investments due to recent market declines makes it prudent to review the long-term solvency of the funds and make changes necessary to maintaining the fund's stability in the long term.

By Sept. 9 the STRS Board (and all other Ohio pension system boards) is required to present its plan for long-term solvency to the Ohio Retirement Study Council. ORSC is a legislative oversight body for the public retirement systems. This requirement was put in place given the impact of the economic downturn on the value of investments in the funds. Ensuring long-term solvency will protect our pensions and provide stability so that the fund can pay benefits far into the future.

At its Aug. 20-21 meeting, STRS board members came closer to agreement on the components necessary to stabilize the fund with the least impact on members. These components were not finalized as Board members are still debating the date of recommended implementation. **The Board has scheduled a special meeting for Sept. 1 to finalize details of a plan it will present to the ORSC.**

In the meantime, here is a summary of the recommendations as they stand today:

- Contribution Component: Increase member and employer contributions by a total of 5% by 7/1/2020 (increase employee contributions by 0.5% per year beginning 2011 until an additional 2.5% is reached; and increase employer contributions by 0.5% per year beginning 2016 until an additional 2.5% is reached). Ultimately, members would contribute a total 12.5%; employers would contribute a total 16.5%.

The entire board supports the idea of increased contributions.

Of course we don't like the idea of the employee increase beginning first, but the reasoning is that since many school boards and treasurers opposed employer increases proposed in HB 315, they will also put up strong opposition this time. The hope is that not enacting the employer increase until 2016 will give them more time to plan for the adjustment.

- FAS component: Base final average salary (FAS) on five highest years (currently three) of earnings, beginning 8/11/2015.

The Board is generally in agreement on making the change but is still in discussion about when to make the change. A couple of members want the change to be made in 2011, however, since these changes must be approved by the legislature it is unlikely they will be willing to authorize this next year (in time for 2011 implementation) because it is an election year.

- Retirement Eligibility Component: Beginning 8/1/2015, members may retire and receive an unreduced benefit at: any age with 35 years; age 60 with 30 years; or age 65 with 5 years. Members may retire earlier with an actuarially reduced benefit at: age 55 with 30 years' or age 60 with 5 years. Members who meet age and service eligibility for service retirement as of 7/1/2015 under the current rule retain their eligibility.

Again, the only undecided point on this item amongst the Board members is the implementation date. Two Board members want to see this implemented in 2011.

- Benefit Formula Component: Benefit formula is 2.2% per year for first 30 years; 2.5% per year thereafter, beginning 8/1/2015. The 35-year enhanced benefit is no longer needed to encourage teachers to work longer and is eliminated. Those who have 30 years of service; who are age 55 with 25 years of service; or who are age 60 with 5 years of service as of 7/31/2015 receive whichever is greater:
 - The benefit as of 7/1/2015 under the current formula; OR
 - The benefit upon retirement under the new formula.

This means a person who retires at 35 years would receive 78.5% of FAS. A person who retires at age 60 with 38 years of service would receive 86% of FAS.

Again the debate continues over implementation date with a couple of folks wanting 2011. The teachers on the Board are vehemently opposing an early implementation date because they realize that many teachers have already turned down retirement incentives (buyouts) in order to reach the 35 year enhancement.

- COLA Component (cost of living adjustment): Beginning 7/1/2011, current retirees receive a 1.5% COLA through age 79 and 3% from age 80 forward. New retirees receive no COLA before age 60; 1.5% from ages 60-79; and 3% from age 80 forward.

The COLA is still the hot button item. The STRS staff has been asked to look at numerous other adjustments to this.

As we understand it, implementation dates for the majority of the items and COLA are the biggest areas of continued debate at this point. It is important to note that the HPA (Healthcare Pension Advocates - formerly Health Care Advocates, HCA, an advocacy group in which OFT participates) publicly opposed this plan.