

OEA Retirement Systems Update

Report to the OEA Board of Directors: February 2012

Pension Legislation Update

All five of the state retirement system boards have recommended changes in pension benefits in order to improve the long-term solvency of the systems. The funding problems are a result of the severe economic downturn of a few years ago coupled with longer life expectancy of system beneficiaries. All changes to pension benefits (retirement eligibility, formulas, contribution rates and cost-of-living allowances) require a change in state law to take effect. Although legislation has been introduced (HB 69 and SB 3) and received hearings last year, that legislation has been in a holding pattern for quite some time.

The Ohio Retirement Study Council (ORSC), a legislative body that oversees the public retirement systems, has contracted with an independent actuarial firm to study the plans put forward by the systems. That review is expected to be completed in July. If the legislature follows this timeline, it is unlikely that pension reform legislation will move before the November election. However, there have been recent discussions of the Ohio Senate taking up pension reform legislation this spring provided there is stakeholder support.

OEA understands the need for pension reform legislation to ensure the long-term solvency of the retirement systems. These plans represent our members' economic security in retirement and must be preserved. However, the plans must guard against over-correction and have adequate phase-in periods. OEA supports the plans approved by SERS and OPERS but believes the last plan by the STRS Board (passed January 2011) has serious flaws.

The situation with STRS's funding is more severe than that of SERS and OPERS which results in deeper cuts to benefits. Currently, STRS has an infinite funding period which means that without changes they will eventually run out of money and be unable to fund pension benefits. However, the plan passed by the STRS Board has a major flaw with its change in retirement eligibility. Beginning in 2015, retirement eligibility would increase from 30 years of service at any age to 35 years of service at age 60. This is phased-in over time, but the phase-in is not effective because it links age and years of service. Under this plan, a teacher who falls just short of 30 years in 2015 would likely have to work seven or eight years longer than they had planned in order to collect full benefits. OEA and other groups are currently working with the STRS Board and staff to develop a workable phase-in for those in the latter stages of their careers while meeting the funding goals of the system.

ORSC Names New Director, Update on Review Process

On Wednesday, February 8, 2012, the Ohio Retirement Study Council (ORSC) unanimously selected Bethany Rhodes as its next Director. Rhodes has served as deputy legal counsel to the House Republican Caucus and is the former aide of Representative Lynn Wachtmann (R-Napoleon).

ORSC also heard from Flick Fornia from Pension Trustee Advisors, the firm that is conducting an independent review of the retirement systems' funding plans. Fornia summarized his interviews with the ORSC members by saying that there was support for maintaining the defined benefit pension program as long as risks to employers can be minimized. He added that the systems will be asked to update their plans based on data from the most recent fiscal year and build in flexibility to make further adjustments based on future changes in asset values. He indicated that they intend to complete the review of all plans by July 11, 2012.

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