Proposed Plan Design Legislation

– Sub. H.B. 69/Sub. S.B. 3

H.B. 69

- **Pension Reform legislation introduced – 2/1/11**
- **Sponsor testimony given – 2/2/11**
- **Pension fund testimony – 2/9/11**
- **Bill will serve as a "place holder" while negotiations continue**
- **For up-to-date information check the OPERS website, www.opers.org**
- **Also follow us on Facebook, Twitter and our blog**

What Is Driving The Consideration Of Benefit Changes Now?

- **Retirees are living longer in retirement**
- **Growth of retirees as baby boomers grow older**
- **Increase in pension and health care benefits paid as the number of retirees increases**
- **Eliminate unfair subsidization of benefits of subsets of members**
- **Encourage member engagement in their retirement planning**
- **Economic environment**

GOAL:

Finding The Right Balance

More Than Needed	Less Than Needed
May cause undue hardship on members	May create need for more drastic changes later

Key to Achieving Balance → Incremental Changes Over Time

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**

Recent Changes In Key Funding Measures

	2007	2008	2009
Funded Ratio	96%	75%	75%
Amortization Years	14	30 *	30*
Health Care Solvency	31 years	10 years	10.5 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 10 years.*

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.

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

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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

Benefit Formula

CURRENT	LEGISLATIVE PROPOSAL – H.B. 69
GENERAL **Unreduced** – 2.2% x FAS for first 30 yrs of service, 2.5% thereafter	**GENERAL** **Unreduced** – 2.2% for all yrs of service up to 35; 2.5% thereafter
LAW **Unreduced** – 2.5% x FAS for the first 25 yrs of service; 2.1% thereafter **Reduced** – age 52 and 15 yrs of service - 1.5% x FAS x yrs of service	**LAW** No change to benefit formula
PUBLIC SAFETY **Unreduced** – 2.5% x FAS for the first 25 yrs of service; 2.1% thereafter **Reduced** – age 52 and 15 yrs of service - 1.5% x FAS x yrs of service *(no age reduction factors apply)* **Reduced** – age 48 and 25 yrs of service - 2.5% x FAS x yrs of service *(age reduction factors apply)*	**PUBLIC SAFETY** No change to benefit formula

COLA

CURRENT	LEGISLATIVE PROPOSAL – H.B. 69
Percentage – 3% simple COLA COLA begins 12 months after retirement	**GENERAL** COLA = CPI, not to exceed 3% COLA begins 12 months after retirement

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	3% until end of 5 yr transition period following legislation Legislation would remove vesting in 3% COLA effective immediately	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%

FAS

CURRENT	LEGISLATIVE PROPOSAL – H.B. 69
3-years FAS	5-years FAS

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.*

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.

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 *	
Estimated Total Impact	**Estimated 13.4 years**

**Does not require statutory authority for change*

Next Steps

- **Continue communication to members, retirees and stakeholders**
- **Work with members of the Ohio General Assembly**
- **Follow legislative hearings on H.B. 69 and S.B. 3**
- **Follow debate on the 2011-2013 state budget proposal**
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