21-136, 2/11/225

1

Pension Funding — The Issue

- **Pension funds have been significantly impacted by the recession, as well as changing economic and demographic trends.**
  - STRS Ohio funding period was 41.2 years in 2008 compared to infinity today
- **Changes are needed to help secure pensions for the long term and preserve the Defined Benefit Plan.**
  - July 2009, STRS Ohio had 60¢ for every $1 in liabilities.
  - July 2010, STRS Ohio had 59¢ for every $1 in liabilities.
  - Our liabilities are growing faster than our assets.
- **If no changes are made, STRS Ohio will eventually be unable to pay pensions.**

2

The Planning Process

- **Retirement Board review began in March 2009 with a pledge to be detailed, thorough and deliberative.**
- **Better investment returns in the future would not be enough to solve the problem.**
- **Evaluated changes to the five levers that drive cost.**
  - Eligibility for benefits
  - Benefit formula
  - Final average salary calculation
  - Cost-of-living adjustments
  - Contribution levels — member and employer
- **Numerous combinations were evaluated.**
- **Input received from statewide constituent groups.**
- **Recognized that few would be happy with needed changes, as they would ultimately reduce benefits.**

3

The Planning Process

- **Original plan approved in September 2009 to meet legislative deadline.**
- **Revised plan approved in October 2010, based on feedback from constituency groups.**
- **Retirement Board approved final plan Jan. 27, 2011, that complies with Ohio statutory requirement to bring pension fund to a 30-year funding period.**
- **Other four Ohio public pension plans have also proposed changes.**
- **Each system's changes require legislative action.**

4

STRS Ohio Plan

- **Pension benefit**
  - Changes eligibility for retirement.
  - Changes benefit formula.
  - Increases number of years for calculating final average salary (FAS).
  - Reduces the cost-of-living adjustment (COLA).
  - Increases contributions from members.
- **Other benefits**
  - Cost of purchasable service credit.
  - Eligibility for disability and survivor benefits for new members.

5

Normal Retirement Eligibility

Unreduced Benefit for Retirement Between:	Minimum Age and Years of Service
Now–7/1/2015	Any age and 30 yrs.
8/1/2015–7/1/2017	Age 56 and 31 yrs.
8/1/2017–7/1/2019	Age 57 and 32 yrs.
8/1/2019–7/1/2021	Age 58 and 33 yrs.
8/1/2021–7/1/2023	Age 59 and 34 yrs.
8/1/2023	Age 60 and 35 yrs.
8/1/2015	Age 65 and 5 yrs.

Members who meet age and service eligibility as of July 1, 2015, under the existing rule retain their eligibility.

6

Early Retirement Eligibility

Actuarially Reduced Benefit* for Retirement Between:	Minimum Age and Years of Service
Now–7/1/2015	Age 55 and 25 yrs.
8/1/2015–7/1/2017	Age 55 and 26 yrs.
8/1/2017–7/1/2019	Age 55 and 27 yrs.
8/1/2019–7/1/2021	Age 55 and 28 yrs.
8/1/2021–7/1/2023	Age 55 and 29 yrs.
8/1/2023	Age 55 and 30 yrs.
8/1/2015	Age 60 and 5 yrs.

Members who meet age and service eligibility as of July 1, 2015, under the existing rule retain their eligibility.

*An actuarially reduced benefit reflects a reduction of about 8%–9% for each year that a member retires before meeting eligibility for an unreduced benefit.

7

Early Retirement Reductions

Number of Years Early	Percent Reduction	Percent of Full 2.2% Formula
1 year early	9%	91%
2 years early	18%	82%
3 years early	25%	75%
4 years early	32%	68%
5 years early	38%	62%

A benefit is reduced based on the number of years a member retires before meeting eligibility for unreduced benefits.

For example, age 55 with 30 years on July 1, 2018, is two years early. Benefit is 30 years x 2.2% x 82% = 54.1% of FAS

8

Benefit Formula

- **Benefit formula**
  - All years are multiplied by 2.2%.

    35 yrs. (at age 60 or older) X 2.2% = 77% of FAS

    38 yrs. (at age 60 or older) X 2.2% = 83.6% of FAS
  - Effective Aug. 1, 2015.
  - Beginning Aug. 1, 2015, there will no longer be an enhanced benefit with 35 years of contributing service credit.

9

Benefit Formula

- **Transition benefit**
  - Those who are eligible for service retirement as of July 1, 2015, receive **the greater of**:
    a) The benefit as of July 1, 2015, under the current formula; OR
    b) The benefit upon retirement under the new formula.
  - In short, members who are eligible for service retirement will receive no less of a base pension benefit than they could have received on July 1, 2015.

10

Final Average Salary (FAS)

- **FAS**
  - Calculation to be average of **five** highest years of earnings.
  - Beginning Aug. 1, 2015.

Example using **three**-year FAS		Example using **five**-year FAS	
	$50,000		**$50,000**
	$52,000	+	**$52,000**
	$54,000	+	**$54,000**
+	**$56,000**	+	**$56,000**
+	**$58,000**	+	**$58,000**
=	$168,000	=	$270,000
÷	**3**	÷	**5**
=	$56,000	=	$54,000

11

Cost-of-Living (COLA)

- **Proposed COLA**
  - Beginning July 1, 2012, current retirees would receive an annual 2% COLA.
  - Members retiring Aug. 1, 2012, and later would also receive an annual 2% COLA — beginning on the fifth anniversary of retirement.
  - Not compounded.

12

Contribution Increase

- **Increase member contributions by a total of 3% over three years.**
  - Increase phased in 1% per year, beginning July 1, 2012, until 13% is reached on July 1, 2014.

13

Key Decision Points

- **Retire on or before July 1, 2012.**
  - Benefit may be lower than a future retirement date; however, COLA begins on first anniversary compared to beginning on fifth anniversary for retirements Aug. 1, 2012, and later.
- **Retire on July 1, 2015, or continue working.**
  - Transition benefit locks in eligibility and minimum base benefit level; however, a member may have to work two or more years before the retirement benefit begins to increase.

14

Cost-of-Living (COLA)

Example

- **July 1, 2012, retirement — member who is age 55 with 29 years of service credit, with a $59,400 FAS.**

Versus

- **July 1, 2013, retirement — member who is age 56 with 30 years of service credit, with a $60,900 FAS.**

Year	Retire on July 1, 2012	Retire on July 1, 2013
2012 Base	$3,000	
2013	$3,060 (2% COLA begins)	$3,350
2014	$3,120	$3,350
2015	$3,180	$3,350
2016	$3,240	$3,350
2017	$3,300	$3,350
2018	$3,360	$3,417 (2% COLA begins)

15

Cost-of-Living (COLA)

Example

- **July 1, 2012, retirement — member who is age 55 with 30 years of service credit, with a $63,600 FAS.**

Versus

- **July 1, 2013, retirement — member who is age 56 with 31 years of service credit, with a $65,700 FAS.**

Year	Retire on July 1, 2012	Retire on July 1, 2013
2012 Base	$3,500	
2013	$3,570 (2% COLA begins)	$3,750
2014	$3,640	$3,750
2015	$3,710	$3,750
2016	$3,780	$3,750
2017	$3,850	$3,750
2018	$3,920	$3,825 (2% COLA begins)

16

Retirement Eligibility

Example

- **Member who is age 49 with 26 years of service credit as of July 1, 2011.**
- **$60,000 FAS on July 1, 2015.**
- **3% annual salary increase.**
- **$61,843 FAS on July 1, 2017.**

Member Age	Service Credit	July 1	Percent of FAS	Benefit	Comments
49	26	2011			
50	27	2012			
51	28	2013			
52	29	2014			
53	30	2015	66%	$3,300	Locks in eligibility
54	31	2016		$3,300	Eligible for transition benefit
55	32	2017	64.1%	$3,303	Eligible for reduced benefit*
56	33	2018	66.1%	$3,509	Eligible for reduced benefit
57	34	2019	74.8%	$4,090	Eligible for unreduced benefit during phase-in

*Based on five-year FAS that begins Aug. 1, 2015.

17

Purchasing Service Credit

- **Purchased service credit**
  - Eliminate purchase service subsidies by (1) requiring members to pay the full projected liability created by the purchase of private teaching, out-of-state public service, prior military service before teaching and Ohio noncontributing public service; and (2) eliminating the interest-free period for completing deposits on a leave of absence.
  - Members must file all necessary forms for certification by Dec. 31, 2013, and purchase the credit by June 30, 2014.

18

Disability and Survivor Benefits

New Members

- **As proposed, these changes would become effective July 1, 2012.**
- **Disability benefits**
  - Increase service requirement to 10 years from five years of earned Ohio service for eligibility.
  - Reduce time period members can apply for disability to one year from two years after last date of service.
- **Survivor benefits**
  - Increase service requirement to five years from 1.5 years of earned Ohio service for eligibility.
  - Reduce time period survivor benefit eligibility continues to 12 months from 27 months after last date of service.

19

Next Steps

- **Changes in proposed plan require legislative action.**
- **House Bill 69 and Senate Bill 3 were introduced on Feb. 1, 2011.**
- **Changes to STRS Ohio's proposed plan may occur during the legislative process.**
- **STRS Ohio will keep members informed of legislation's progress and any amendments going forward.**
- **Visit the STRS Ohio Web site at www.strsoh.org.**
  - Register for e-mail updates.
  - Read further information about pension plan reform.

20