Protect Ohio Pensions

Spring 2024

Retirees & Current Employees Working Together to Preserve Ohio's Public Pensions

Insight From the Administrator

By Maryfrances Kamyar

Concerning the question of an employer contribution rate increase for any of Ohio's pension systems, we will look at two snap shots of history that have affected where Ohio Police and Fire (OP&F) and the State Teachers Retirement System (STRS) sit today in their funding. The five defined benefit pension systems have similarity; employee contributions, employer contributions and the investment return on that money. There is the cost of running the investment house (pension system) and money paid out in benefits. Throughout all that are the public workers whose individual contracts for their specific jobs spell out different lengths of years of service and ages for retirement, with very different job descriptions.

Listening to the Ohio Legislative Pensions Committee meeting concerning HB 296, employer rate increases, Executive Director Mary Beth Foley Esq. of Ohio Police & Fire made an impactful opening statement in saying there was "A historical, structural underfunding of the Ohio Police & Fire fund." What this amounted to was when the fund was started in 1967 rolling both the police and fire into one fund, they did not receive all the funding that was required. Ms. Foley stated it has taken 56 years for those dollars to be paid into the system with $18 million still outstanding.

Looking back, after the Dotcom bubble and The Great Recession of 2008 all of Ohio's public pension systems had a decrease in funds and needed the ability to take actions to increase their funding. One step was "pension reform" legislation, put forward in 2012 and signed by the Governor in 2013. These House Bills made available different opportunities for the pension systems and boards to make changes that would increase their funding status. For OP&F, this was one of their changes.

"Most OP&F members receive pensions under a normal service retirement. For members hired into an OP&F-covered position after July 1, 2013, normal service retirement is age 52 with at least 25 years of service. Members hired on or before July 1, 2013, the normal service retirement eligibility age is 48," (OP&F handbook).

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The Legislative Report

By Steve Buehrer, Esq.

As we have come through the first quarter of the year, the General Assembly has had few full session days. With a March primary election and disagreement between the chambers on several key pieces of legislation, less than the normal legislative activity has taken place and many bills are at a standstill. The next several months will also see limited session days before the General Assembly adjourns for likely a long summer recess that could run until the fall elections in November.

Despite this limited schedule in the legislature, discussions concerning pension issues continue to be taking place. The most notable topic under discussion is whether employer contribution rates should be increased. In last quarter's newsletter, we took a look at past as well as pending legislation that would grant an employer contribution increase to the Ohio Police & Fire Pension system (OP&F). House Bill 296 would increase employer contributions for police employees from a current 19.5% to 24% over a five-year period. According to the official fiscal note on the legislation, this change would cost Ohio employers (primarily municipalities) $70.1 million per year when fully implemented.

During five committee hearings in the House Pensions Committee, OP&F employees and labor unions have argued that the increase is necessary to maintain the stability of the fund as well as attract potential employees to the police service who expect a sound and stable pension system. Although city and municipal representatives (who have testified as opponents) agree that a stable pension system is important, they question the

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Retirees & Workers Standing Together

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The OP&F COLA begins at age 55, if my math is correct for someone retired at age 52 with at least 25 years of service, they would wait 3 years to receive a COLA.

Currently, OP&F is at the limit of crossing the 30-year amortization funding mark. Why is the 30-year funding mark so important? Because it was part of "pension reform", and speaks to the systems ability to pay off their debt. If OP&F exceeds the 30-year funding mark they have 90 days to present a plan to get back inside the 30 years. (Amortization-a period in which a debt is reduced or paid off by regular payments, such as a house loan)

From the 2011 STRS Comprehensive Annual Financial Report we read that STRS was 58.8% funded and STRS amortization was at infinite. STRS amortization has reduced from infinite in 2011, to 29.5 years in 2014, to 11.2 years in 2023.

Two of the biggest decisions made in pension reform for STRS was, "Members retiring AFTER July 1, 2013, will receive a 2% COLA, but it will not begin until the fifth anniversary of retirement," And, "*Increase member contributions by 4%, phased in 1% per year beginning July 1, 2013, through July 1, 2016* Members will contribute 14% of their salary to STRS Ohio beginning July 1, 2016, (STRS website 2012)

With the authority of "pension reform" legislation, the STRS board stopped the COLA in 2017. Funding increased to 77.4% in 2020 and 81.3% in June 2022. A one-time cost-of-living allowance of 3% was restored July 2022.

All five of Ohio's public pensions are required to stay within the 30-year funding period.

Ohio's pension systems are investment houses, operating to provide retirees with a pension check. Whatever financial history they have, they continue to provide a monthly check.

What kind of financial crisis could be in our future? Pensions systems' financial advisors do "stress tests" to gauge how the systems would manage during certain situations. Would this be a good time in Ohio to look at some kind of reform for Ohio's pension systems to call upon when there could be a challenge to their financial health? Would the answer be employer contribution rate increases? Or are there other ideas to help the systems individually take steps to keep a good funding status?

As always, POP5 will be looking forward to any and all discussions concerning the stability of Ohio's five public pension systems. The POP5 board welcomes constructive comments concerning our policy statement.

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need for this increase and believe that increasing community costs will only lead to less officers being hired. (A companion bill in the Senate, SB 194, had not yet received hearings.) With strong opinions on each side of this debate, the Ohio Retirement Study Council has yet to issue a recommendation on the legislation.

Adding complexity to the debate is the decision of the Ohio Public Employee Retirement System (OPERS) and the State Teachers' Retirement System (STRS) boards to also pursue employer increases. The STRS proposal would raise employer contributions from 14% to 18% over eight years. This increase would be the first for the system since 1984. OPERS is seeking a statutory increase in the employer contribution caps that the board could implement at their discretion as financial situations change. Presently, representatives of OPERS and STRS are meeting with key legislators to gain support for these changes and to find a member of the legislature who will introduce the legislation. It is likely that these two systems will see their independent legislative proposal introduced in the coming months. Like HB 296, the fortunes of these bills are unclear with limited session days scheduled for the remainder of the year.

Despite the slow pace of legislation this session, recent comments highlight that a greater number of legislative members seem aware of the financial strain on the retirement systems- especially OP&F. Senate President Matt Huffman was quoted in recent days saying contribution increases is a "significant issue" and will need careful consideration from a number of involved parties. Chairman of the House Pensions Committee, Adam Mathews, has said "the more information we have the better". Seemingly, these statements and others from involved parties make it likely that employer contribution rates will continue to have discussions both inside and outside of the committee hearing rooms.

As pointed out in last quarter's newsletter, one of the

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Protect Ohio Pensions

Policy Statement on Employer Contribution Increases

Protect Ohio Pensions (POP 5) is committed to the protection of defined benefit retirement plans. Furthermore, POP 5 will support policies that maintain the stability of the pension funds to meet their long-term goal of providing a meaningful retirement pension and benefit package. POP5 will evaluate employer contribution increase requests in the context of system stability and funding adequacy. Although individual system increases may be appropriate at various moments in time, POP 5 would encourage a thorough review of all five pension systems' financial needs prior to granting individual increases for any one system. POP 5 further believes that employer contribution increases should only be considered after system leadership has adopted all reasonable methods to contain costs and align benefits within the existing contribution levels.

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uncomfortable side effects of these discussions is the possibility of creating a perception that the retirement systems are facing a "crisis" or may have inadequate funding. Today, these perceptions seem incorrect. All of the systems have stated that they remain adequately funded at the present time. However, future uncertainty in investment returns and other system costs bring those boards seeking a funding increase to the conclusion that they are trying to get ahead of any funding shortfalls that might occur. POP5 will continue to monitor these debates and participate in these conversations. Our policy statement clearly states that careful analysis must be done, however, the ultimate stability and sustainability of the public pension systems will remain our primary goal.

ORSC Staff Report

For those of you interested, the ORSC staff has completed the request given to them in the form of a motion, "For the staff to create a comprehensive report analyzing historical trends for each of Ohio's five public pension systems." The full motion is stated in its entirety in our 3rd newsletter 2023. This information will be used to assist in legislative decisions concerning the pension systems and funding issues.

The ORSC meeting recordings can be heard at this website: https://ohiochannel.org/collections/ohio-retirement-study-counci l, choose the meeting dated 4-11-2024, the report starts at the 15-minute mark if you care to fast-forward. The presentation is about 35 minutes long. After the presentation each of the pension systems directors were given the opportunity to comment. The comments begin at the 52-minute mark.

If you are interested in reading the report you will find it, https://www.orsc.org. On the right side of the page select Find A Report by category. Click on the drop-down box and select ORSC reports and select submit. The report is dated 4-12-2024.

As a member of POP5 you can be assured we are actively involved in the support and protection of the defined benefit pension plans. We share this information for your personal interest in the details of how the employer rate increase legislation is being considered.

Membership Updates

POP5 staff appreciates the updates we receive for phone numbers, addresses and email. We are encouraged by your phone calls asking us about Protect Ohio Pensions and what kind of movement we are seeing with both federal and state legislation. Please keep those phone calls coming if you have any questions, I enjoy talking to you all!

Maryfrances

Pensionomics 2023-Economic Multiplier

Each $1 in state and local pension benefits paid to Ohio residents ultimately supported $1.34 in total output in the state. This "multiplier" incorporates multiple rounds of impacts of retiree spending, as each purchase ripples through the state economy.

Each $1 in taxpayer contributions to Ohio's state and local pension plans supported $5.98 in total output in the state. This reflects the fact that taxpayer contributions are a minor source of financing for retirement benefits—investment earnings and employee contributions finance the lion's share. (NIRS)

Resources for Seniors

While Ohio public employee retirees are fortunate to receive defined benefit pensions, we recognize that there are POP5 members whose pensions are not enough to meet all their financial needs.

Inflation, the high cost of healthcare and increased needs as we age cause some to struggle daily. There are many services available which provide assistance for seniors such as help with utility fees, food, transportation and more. Specific services vary by location but a valuable resource to find services in your area is your Area Agency on Aging The Ohio Association of Area Agencies on Aging is a non-profit advocacy group which can connect you to your regional Agency on Aging. Call 1-866-243-5678 or visit ohioaging.org for further information.

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