Protect Ohio Pensions 3rd Quarter 2019

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

Insight From the Administrator

By William I Winegarner

In this quarter's article, I will be explaining the differences between a generic-defined contribution and a generic-defined benefit retirement plan. After reading the explanations, it would appear that most legislatures would have less hassle and liability if they put all current and new employees under defined-contribution plans.

We believe this is not the case in Ohio. When the Ohio legislature established its pension funds, they did it right. They separated operations and investment decisions from the political process. They properly funded the employer's portion of the benefit. They retained adequate legislative oversight and they insured that Ohio's retired public employees had an exceptional retirement benefit package.

As defined-benefit retirees, why should we be concerned with what plans current and future workers will have? Well, the impact on you might be surprising.

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The Legislative Report

By Steve Buehrer, Esq.

One of the most important pieces of legislation that any Ohio General Assembly undertakes is the passage of a state budget. In reality, the legislature passes four separate budgets on a biennial basis. The Ohio Department of Transportation, the Industrial Commission and Bureau of Workers' Compensation each have their own individual budgets. All the rest of state government funding is contained in a single bill that gets introduced in the early spring of odd numbered years (like 2019) and must be considered and passed by the General Assembly by June 30th to fund government for the next two years.

This year that budget was House Bill 166. It was proposed by Governor Mike DeWine in March and was introduced in the Ohio House where nearly eight weeks were spent considering and tweaking the programs and funding proposed by the Governor. In strong bipartisan fashion, the bill was sent to the Senate in May and they put their ideas and input into the bill. After unanimous passage in late June by the

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Nancy B. King — POP5 Board Secretary

I retired from the Franklin County Public Defender office in 2012 and began receiving my OPERS retirement benefit. I was rehired at the same job 2 months later and I finally stopped working in 2016. I joined PERI in 2012 and read the newsletters while I continued to work. They helped me envision a day when I was no longer working. Since 2016, that organization continues to provide me useful information about OPERS.

After catching my breath and getting used to not working, I started to think about what I should do to be a productive retiree. I enjoyed having time for family, travel and areas of interest but after 35 years as a public employee I still felt the draw to continue in public service.

When I received a mailing from Protect Ohio Pensions offering membership in a new organization, I was intrigued by the stated purpose and signed on quickly. I recognized the importance of protecting the pension systems in Ohio for retirees and current workers. As a lawyer, I understood the mission to advocate for all the pension systems as a united front. As a retired public employee, I appreciated that this was an organization of other public servants continuing our career goal of working together for the common good.

Soon after I joined, there was a call for member volunteers to serve on the board. I became the Board Secretary in 2017 and have enjoyed helping to build the organization.

We currently seek a representative from SERS to serve on the board. If you are interested, please call our Executive Director, Bill Winegarner, at 614-426-4333 or email him at POPOFFICE@POP5.ORG

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Let's begin with the definition of the two different plans:

Defined-Contribution:

A defined-contribution plan is a retirement plan where employers, employees, or both make regular contributions, and future benefits are based on how much money goes into the plan and how the plan's investments perform. Defined-contribution plans typically impose restrictions on when funds can be accessed and assess penalties for early withdrawals.

There are basically four types of defined-contribution plans:

- 401(k) plans for private-sector employees offered by their employers.
- 403(b) plans for employees of public schools and non-profit organizations.
- 457 plans for state and municipal employees, and employees of qualified non-profits.
- Thrift Savings Plans for federal employees

As an Ohio public employee participating in a defined-contribution plan that is governed under Section 457(b) of the Internal Revenue Code and commonly known as a governmental deferred compensation plan, a pre-determined portion of your pay, and your employer's matching amount, will be contributed as pre-tax money each payday into an annuity or a custodial trust account and invested so that it can grow tax-deferred.

Once funded, it will be up to the employee to decide how to invest the accounts' assets. Most plans offer a number of investment options, each of which comes with its own risks and fees. Furthermore, once you open an account, you get to maintain ownership of it, even if you switch jobs. But while the money in that plan is yours, there are strict rules regarding the timing of withdrawals. Typically, you'll face a stiff penalty for withdrawing funds prior to reaching age 59-1/2 (though there are a few exceptions). As the employer no longer has any obligation on the account's performance after the funds are deposited, these plans require little work and are low risk to the employer. The employee must direct contributions and investments to grow the assets adequate for retirement.

Defined-Benefit:

A defined-benefit plan is a plan that guarantees employees a specific amount of money in the future.

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Senate, the two chambers sent the bill to a conference committee to work out differences. For only the second time in more than 20 years, the legislature could not agree on a final version of the bill by the June 30th deadline which forced an interim budget. Ultimately, the state's two-year budget was enacted on July 17th and, after 25 line-item vetoes, Governor DeWine signed it into law. In summary, the bill spends nearly $143 billion over two years (including federal matching money and other revenues) to fund all aspects of state government as well as provides funding for local governments and schools. This two-year budget spends more money than previous years' funding on programs benefitting children, education, opioids programs as well as many other priorities.

One might wonder why the details of the state budget are being recounted in the POP 5 newsletter. The reason is that the state budget in addition to setting funding levels is also an enormous policy bill enacting scores of new law along with the budget items. The 2,600-page document contains provisions governing topics as diverse as crib liners, fishing licenses, fireworks, welding standard and casino ownership to name only a few. Ultimately, everyone knows that the state budget will pass and become law. Therefore, legislators and interest groups utilize the budget as a vehicle to enact pieces of other legislation that may struggle to pass on their own or need to move quickly through the legislative process. Although Ohio's constitution requires that bills apply only to a "single subject", this rule is often ignored in the context of budget enactments.

Key to good advocacy on behalf of POP 5 is to watch large pieces of legislation like the budget to make sure that topics on pensions or other provisions that might be unfriendly to our defined benefit interests do not become part of the bill. After carefully monitoring this bill through its legislative process and reviewing the end product, no significant or hostile pieces of retirement legislation became part of HB 166. Sometimes no change is a victory in the legislative world, and this adage is certainly the case this year in this bill.

As the General Assembly returns to continue their two-year session in the fall, we will continue to keep track of ideas and issues that could impact the pension systems. For now, we can rest assured that our state has a stable budget and all the rest of the new law in the newly enacted bill has not harmed the pension systems we all rely on.

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Employees and employers make contributions to the joint fund. The pension system administrators are tasked with the fiduciary responsibility of managing the plan and investing its assets in the best interests of the contributors and for taking on whatever risk that may entail.

The primary difference between a defined-contribution plan and a defined-benefit plan is that with the former, you are not guaranteed a certain amount of money in retirement. With a defined-benefit plan, the amount you will receive is defined (hence the name) and based on factors such as your length of employment and earnings history. Furthermore, a defined-benefit pension system is responsible for investing the fund's assets and taking on whatever risk that entails; whereas, with a defined-contribution plan, the worker makes his or her own investment choices and assumes all of the risks involved.

Though defined-benefit plans typically offer more financial security than defined-contribution plans, they have all but disappeared in the private sector and the economic and political pressure to eliminate them in the public sector has continued to escalate since the early 2000s.

It is the economic pressure to eliminate defined-benefit plans in the public sector that brings us back to the question, "As defined-benefit retirees, why should we be concerned with what plans current and future workers will have?"

The answer is simple and the reason for the existence of Protect Ohio Pensions.

If current and future workers only have defined-contribution plans available to them, their contributions and the employer's matching funds will go into each worker's private account. This practice will cut off new contributions into our defined-benefit fund. As our pension fund decreases in size from the lack of new participants and ongoing pension payments, so will its earning potential and ability to meet its future pension obligations. In addition, our current health care and COLAs benefits are also funded from the funds provided by the current workers.

We do not want to stop the growth of our fund and the benefits it provides, not only for our benefit but also for the benefit of Ohio's current and future employees and the financial benefits to Ohio's taxpayers.

Because Ohio's pension systems have been properly organized, funded and managed, they are worthy of being protected from outside economic and political interests to the detriment of Ohio's citizens and its public servants.

Meeting In Your Area

Would you like to have a POP 5 representative address your group? If you are not part of a group, would you like to set up a meeting in your area to meet and hear from a POP5 representative?

If so, call or email the office and we will work with you to make the arrangements..

Maryfrances Kamyar— Chief Operations Officer

The following contains excerpts from a June 28, 2019 article by Chris Schmidt, financial writer for CFO . In order to protect our Ohio defined-benefit pension plans, our members need to be aware of what is happening elsewhere in the world of pensions. These trends will be coming before our Ohio legislature in the near future and we need to be prepared with answers.

The Disappearing DB Pension Plan:

The use of defined benefit pension plans continues to decline as sponsors look to de-risk pension strategies. Governing a defined benefit (DB) pension plan and its investment strategy has always been challenging. Over the past decade it's also become increasingly complex, not to mention costly, spurring many plan sponsors to reevaluate their pension plan approaches.

A new survey of 155 U.S. senior finance executives conducted by CFO Research, in collaboration with Mercer, found that 77% of those DB plan sponsors expect to change how their plan is managed over the next two years. That was up from 60% the last time the survey was conducted in 2017. (Mercer and CFO Research have been conducting a DB risk management survey on a biennial basis since 2011.)

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The survey found that 71% of plan sponsors were considering terminating their plans over the next 10 years, up from 59% in 2017 and 47% in 2015.

Broadly speaking, those intent on de-risking have three levers to pull: funding strategy, investment strategy, and risk-transfer strategy.

One option is lump sum payment at the time of retirement, moving the pension risk from the plan sponsor to the employee. Another option is to off-load retiree obligations to an insurer through the purchase of an annuity and the final option is to convert plans to defined-contributions, where the risk lies solely on the employee. Of the three, risk-transfer to defined-contribution plans is generally the most appealing to legislators.

Every private sector defined-benefit plan in the U.S. is facing one of three end-states: sustainability, hibernation, or termination.

We are here to help educate legislators on why Ohio's defined-benefit pension plans can be economically maintained for the benefit of taxpayers, public employees and local economies.

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