

Protect Ohio Pensions 3rd Quarter 2021

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

Insight From the Administrator

By William I Winegarner



So, here we are.

Everywhere there is a battle. Our heads hurt with all the negativity that is daily driven into our brains through TV, radio and paper news. To fill any quiet time, we are bombarded with the opinions expounded by websites, emails, blogs, and former associates.

In our area of concern, pension preservation, a new category has appeared and taken on a self-defeating remedy. It is called expectation disappointment.

Over the past 10 years or so, I have explained that Ohio's pension systems are not our employers. I have also explained that in the least common denominator they are simply an investment house. If you want your expectations to be balanced, it is important to understand the difference.

We would like for our members to be happy and thankful for their pension system and its employees. That process begins when one considers what a pension system does, and how much they do for us.

So here is a group of people (your pension system). Their first task is to understand the laws that govern your particular system. The second is to learn what their responsibility is to all its contributors, not just retirees.

Note: I will use the pronoun "they" referring to the individual employees of your pension system.

After they understand those major responsibilities, their work begins.

Let's start with category one.

Income and accounting:

They have to know, and follow, every one of their thousands of employers and their tens of thousands of employees.

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The Legislative Report

By Steve Buehrer, Esq.



The Future of Ohio is Being Decided Now.

Every 10 years the United States Census Bureau undertakes a count of the number of people living in our country. The census provides many types of information that is utilized by numerous organizations as well as the government itself for a variety of purposes. One of the uses of this

data is to redraw state legislative districts as well as congressional districts in all fifty states. Like all the states, Ohio is now engaged in its process to set these lines for the next legislative election which will be held in 2022.

In Ohio, the procedures that dictate how the legislative lines will be drawn are set forth in the Ohio Constitution. Although the processes differ for the Congressional and Statehouse seats, both will operate under new rules that were passed by Ohio voters during the past decade. For the purposes of this article, we will focus on state legislative redistricting since most policy activity for POP 5 is at the state level. The "reapportionment" process for Statehouse district lines begins when the Ohio Reapportionment Commission convenes a series of meetings. The Commission is composed of the governor, auditor of state, secretary of state and one representative from the majority and the minority party in each body of the General Assembly. The Commission must look at the census data and divide the state into 99 house districts as well as 33 state senate districts (each containing three House seats).

Although this basic procedure has been in place for many years, the newly approved changes to the Constitution as well as the COVID virus have significantly impacted the process this year. First, the census data collection was delayed by the virus as was the release of the census findings. The final data was finally released to the states in mid-August. Under Ohio's rules, the maps are to be completed by September 1st. The delays in drawing the maps have therefore caused the process to be very compressed. It is important to note that the revisions to this process, approved by voters, mandate minority input and approval for the final maps which also must seek to avoid splitting counties and cities under newly set forth standards.

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RETIREES & WORKERS

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They have to make sure every dime of each worker's income is accounted for and their portion of retirement payment collected and posted to the correct account. They must also, calculate and collect the employer's percentage of payroll for each worker. For the larger systems that means about 500,000 individual accounts that have to be computed and tracked on a monthly basis.

That is the easy part. They now move into the fiduciary (responsibility) arena. They have to project (guess) (estimate) (speculate) (predict) the future.

Very simply stated, they have to come up with a realistic amount of pension they can promise based on deposits, projected earnings, years of service, amount contributed and age at the time of retirement. A very large component of this calculation process is protecting the investments and rights of current contributors.

The process of determining pension amounts includes advice from accountants, actuarial firms (professional guessers based on past actions), lawyers (requirements of laws and statutes), and fund security (protecting everyone's deposits).

Fiduciary Oversight:

Each Board of Trustees has to consider and decide what is best for the preservation of the funds and the continuation of the defined-benefit pension plans. They are responsible for following the pension statutes (laws), protecting all working and retired workers, attending to the education of employers, members, retirees, politicians and press. They also have to provide for the computers, programmers and workers to track all of the data, and for the security of the data, equipment and facilities.

Did you know that the majority of the average pension is provided from pension system investment earnings? Simple calculations reveal that worker and employer contributions, and the accumulated earnings on those, only account for the first nine years of pension payments.

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STANDING TOGETHER

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Absent a bi-partisan agreement on the new map, the Constitution contains provisions that will allow for the approval of a four-year duration map as opposed to the traditional ten-year maps that are normally set in place.

The uncertainty of the new procedure as well as the delays in obtaining the census results have left the process with many uncertainties as the clock winds down. With all of the complexities of this process, perhaps you are asking why it all matters. In a simple sense, who is elected to the General Assembly and who is "in charge" dictates much about how the statutes and policies of the state are set. Critics of the old map drawing process complained that political considerations often dictated the map drawing. Further by creating non-competitive districts, some have argued that individuals elected to the legislature did not need to compromise in order to retain their partisan legislative seats. The hope from these critics and many of the advocates who championed the reforms to the map making process is that more competitive districts across the state as well as narrower majorities in the legislature will lead to more balanced law making.

Whether these hoped for scenarios play out and how new districts will impact policy making in the state is yet to be determined. Furthermore, a number of factors go into determining who wins legislative races. Ohio, like many other states, continues to change politically due to a number of demographic trends. Seemingly, our state has become "more Republican" over the last few elections. How this trend corresponds with the newly drawn districts cannot be known until the voters go to the polls in 2022 for the first time under the newly drawn lines.

For POP 5 and many other groups who are interested in issues before the General Assembly, watching the drawing of districts as well as the ensuing elections will be a predictor of what issues may be priorities before the legislature over the next decade. Whether the impacts of these once in a decade change will be positive or negative cannot be known at this time. However, POP 5 will continue to closely follow the developments impacting policy at the Statehouse and will ensure that our collective voices are heard no matter who is sitting in the seats of the General Assembly.

After that, pension payments come from the earnings that a pension system generates. Stated another way, after nine years, everything you put into the system is gone, and payments after that are earned through the wisdom and skills of the system employees.

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Investment Decisions:

Investment proposals are primarily made to the board by internal and external professionals. Each system has a Chief Investment officer and staff investment experts in the various areas like real estate, national stocks, international stocks, US bonds and commodities. The Boards also hire outside investment firms, advisors and actuaries, before setting up their diverse investment portfolio. All proposals and reports are made in public meetings, and success or failures listed in the Annual Financial reports.

The final step in the process is the distribution of monthly pensions.

Benefits and Education:

Each system has a director of benefits, and their staff is required to calculate thousands of retiree, survivor and guardian amounts, and to see that the correct amount is paid by the Finance Department each month. They also take on the oversight of health care with all of its complexities.

Education is also a major activity of a pension system. These employees are responsible for knowing and understanding all the legal and functional aspects of their system and explaining them to employers, workers and retirees.

So, at this point let me ask you a question: Have you ever missed receiving your pension check? If your answer is “no” you should be extremely thankful; considering all the attention to detail and skills required to administer the complexities of receiving, investing, calculating and distributing your pension.

Now there are some people who are never satisfied, and they are the ones who are always crying foul. The internet is full of them, and they make news, because they stir up peoples’ emotions.

For example, one retiree association called for a forensic audit of their pension system. The internet furthered this cause and is even pushing this effort to the retirees of another system.

Well, what has been the outcome? After a month,

their forensic auditor wrote a report saying basically he didn’t like the system’s investment decisions, and that an oversight agency had not performed a required audit. For that piece of information, the retirees paid \$75,000. Politicians (who basically know very little about the operation of a pension system) were aroused and now a \$760,000 audit will be performed to help them appease their constituents.

If a forensic audit was truly necessary, why didn’t the retiree association recommend a year long \$760,000 audit? (The cost to conduct a real forensic audit of an \$80 billion dollar pension system.)

Setting that aside, let’s return to our pension system management review.

Executive Director and External relations:

These are the thankless responsibilities. Not only is the Executive Director responsible for all of the staff and functions of their systems mentioned above, they take the brunt of all the criticism leveled by members of the public, their own members and retirees, politicians, and news media. The most critical of these, usually have little to no idea of the challenges a pension system faces, nor of the statutory requirements that they must meet, nor of the multitude of professional consultants utilized, before any decision is made.

If those claiming that a pension system’s employees don’t know what they are doing, or they are making bad decisions, or investing in the wrong things, maybe they should first show us their background in investing, and their success and failures. If we are to base our opinions on their views, certainly their portfolio should reflect positive results.

So, what have the naysayers accomplished? Talked others into spending \$75,000. Secured the opinion of one man, who found nothing substantive. Caused their pension system to spend an additional \$760,000 on an unnecessary audit (yes, pension systems pay for the audit).

Now, please don’t read into my statements more than what I have said.

Do we think Ohio pension system employees and

Insight: Continued

boards are flawless? No. No more so than any of us. Do they make mistakes? Yes, but no more than the rest of us. Do all their decisions turn out to be correct? No, but at least they seek out the opinions of professionals before they decide. Are pension system employees and board members impacted by their decisions? Yes. They and their families are subject to the results of their decisions, just like we are.

So, in conclusion, I want to leave you with these thoughts: Protect Ohio Pensions believes Ohio has some of the greatest pension systems in the country.

Protect Ohio Pensions thinks Ohio, with very few exceptions, has caring and committed boards and staff members. Protect Ohio Pensions thinks Ohio pension systems are focused on delivering the best pension package possible to their members within the constraints of law, and their duty to preserve system assets for generations to come.

Protect Ohio Pensions believes that our job, as responsible stakeholders, is to protect our defined-benefit pensions from those who would like to eliminate them, or those who would weaken them through a lack of, or mistaken, knowledge.



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