



Sept. 3, 2009

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Dear Aris:

RETIREMENT BOARD CHAIR  
MARK H. MEUSER

RETIREMENT BOARD VICE CHAIR  
TIM MYERS

EXECUTIVE DIRECTOR  
MICHAEL J. NEHF

Since early this year, the State Teachers Retirement Board has been examining possible changes to strengthen the financial condition of the retirement system. On Sept. 1, 2009, the Retirement Board unanimously approved a plan that calls for the following changes:

### **Increase in Contributions**

- *Increase member contributions by 0.5% per year beginning July 1, 2011, to a total of 2.5% on July 1, 2015.*
- *Increase employer contributions by 0.5% per year beginning July 1, 2016, to a total of 2.5% on July 1, 2020.*

Currently, STRS Ohio members pay 10% of their salary to STRS Ohio and employers pay 14% of total teacher payroll in lieu of paying into Social Security. This plan component increases member and employer contributions by a total of 5% by July 1, 2020. The member increase would be phased in at 0.5% per year, beginning July 1, 2011, until 2.5% is reached on July 1, 2015. The employer increase would be delayed for five years, when it would then be phased in at 0.5% per year, beginning July 1, 2016, until 2.5% is reached on July 1, 2020. Ultimately, STRS Ohio members would contribute 12.5% and employers would contribute 16.5%. This phased approach allows time for the economy to improve and also helps employers with budgeting.

### **Increase in Final Average Salary (FAS) Years**

- *FAS calculation to be based on five highest years of earnings beginning Aug. 1, 2015.*

### **Change in Eligibility for Retirement**

— *Increase years of service required for retirement, beginning Aug. 1, 2015.*  
The recommended change increases the number of years required to be eligible for retirement. Beginning Aug. 1, 2015, members can retire at any age with 35 years of service; at age 60 with 30 years of service; or at age 65 with five years of service. (Members may retire earlier with an actuarially reduced benefit at age 55 with 30 years or at age 60 with five years.) Members who meet age and service eligibility for service retirement as of July 1, 2015, under the existing rule retain their eligibility.

### **Change in Benefit Formula**

- *New formula would be 2.2% per year for the first 30 years of service; 2.5% per year thereafter, beginning Aug. 1, 2015.*

The 35-year enhanced benefit is no longer needed to encourage teachers to work longer and is eliminated. Those who have 30 years of service; who are age 55

with 25 years of service; or who are age 60 with five years of service 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.

**Reduction in Cost-of-Living Adjustment (COLA)**

- *Beginning July 1, 2011, current retirees would receive an annual 2% COLA; members retiring after July 1, 2011, would receive a 1.5% COLA each year.*

Currently, the COLA is 3%. Without a change in the COLA, a viable Defined Benefit Plan cannot be sustained.

Additional details about these plan components are provided in the attached report, which we will present to the ORSC on Sept. 9.

STRS Ohio staff projects that the implementation of these changes would reduce accrued pension liabilities by \$8.99 billion and would bring the pension fund to a 33.4-year funding period from its current status of infinity. Further, the current 1% employer contribution to the health care fund continues.

We look forward to presenting this plan to the ORSC. Further, we look forward to continuing our work with our constituent groups as discussions continue with the other Ohio systems, the ORSC and other members of the Legislature.

Sincerely,



Michael J. Nehf  
Executive Director



**STATE TEACHERS  
RETIREMENT SYSTEM  
OF OHIO**

**A Report to the  
Ohio Retirement  
Study Council**

Sept. 9, 2009

# Pension Plan Design



- About 441,000 of STRS Ohio's 458,000 members are enrolled in or receiving benefits from the Defined Benefit Plan.
- STRS Ohio provides survivor, disability and pension benefits.
- Pension benefits are determined by a member's age, years of service and final average salary (FAS).
- STRS Ohio pays about \$4.3 billion in pension, disability and survivor benefits each year to STRS Ohio members, of which about \$3.6 billion is paid to benefit recipients who live in Ohio.
- An additional \$540 million — or about \$1.5 million per day — is spent on health care coverage for retired and disabled educators and their family members.

# Current Situation



- Before the market downturn, STRS Ohio had a funding period of 41.2 years, exceeding the statute's 30-year maximum funding period. Factors, such as members living longer, caused a reduction in available funds to pay off accrued liabilities over time.
- The unprecedented decline in the global markets and the accompanying recession, along with the projected gradual economic recovery, significantly accelerated the need to make changes.

***If no changes are made, STRS Ohio will eventually be unable to pay future benefits. The Retirement Board and staff, as fiduciaries of the system, must make changes that help ensure the long-term solvency of STRS Ohio for future generations of teachers.***

# Current Situation



- Board approved long-term contingency planning process in January 2009; triggered in February by in-house review of pension and health care fund status and long-term impact of recession and other factors; board began looking at options in March.
- Board and staff pledged that process would be detailed, thorough and deliberative. **No actions would be taken lightly as all actions impact STRS Ohio members and employers.**
- Objective is to preserve the Defined Benefit Plan and continue the health care program. (The HCSF has also been impacted by the recent market downturn.)
- Retirement Board unanimously approved a plan on Sept. 1, and noted it will continue working with the membership and constituent groups while discussions continue with the other Ohio systems, the ORSC and other members of the Legislature.

# Current Situation



- Individual member/employer input received by board and staff during the planning process.
  - Members want to preserve the Defined Benefit Plan.
  - Members value the health care program.
  - Some actives and employers hope for some sort of transition to avoid a “stampede” of retirements.
  - The cost of the enhanced 35-year benefit is a concern to some.
  - COLA has helped current retirees manage increased costs.
  - There is concern about retirees most vulnerable to the impact of a reduced COLA — those who retired many years ago.
  - Consideration should be given to active teachers working longer because they are in a better position to adjust their retirement plans versus those who are closer to retirement or already retired.

# STRS Ohio Plan



- **Contribution Component:** Increase member and employer contributions by a total of 5% by 7/1/2020. Ultimately, members would contribute 12.5%; employers would contribute 16.5%.
- **FAS Component:** Base final average salary (FAS) on five highest years of earnings, beginning 8/1/2015.
- **Retirement Eligibility Component:** Beginning 8/1/2015, members may retire and receive an unreduced benefit at: any age with 35 years; age 60 with 30 years; or age 65 with 5 years. Members may retire earlier with an actuarially reduced benefit at: age 55 with 30 years, or age 60 with 5 years. Members who meet age and service eligibility for service retirement as of 7/1/2015 under the current rule retain their eligibility.
- **Benefit Formula Component:** Benefit formula is 2.2% per year for first 30 years; 2.5% per year thereafter, beginning 8/1/2015. The 35-year enhanced benefit is no longer needed to encourage teachers to work longer and is eliminated. Those who have 30 years of service; who are age 55 with 25 years of service; or who are age 60 with 5 years of service as of 7/1/2015 receive the greater of:
  - (a) The benefit as of 7/1/2015 under the current formula; OR
  - (b) The benefit upon retirement under the new formula.
- **COLA Component:** Beginning 7/1/2011, current retirees receive an annual 2% COLA. Members retiring after July 1, 2011, receive a 1.5% COLA each year.



# STRS Ohio Plan



<b>Plan Component</b>	<b>Implementation Date</b> (in chronological order)
Member Contribution Phase-In Begins	7/1/2011
COLA	7/1/2011
FAS/Retirement Eligibility/Benefit Formula*	8/1/2015
Employer Contribution Phase-In Begins	7/1/2016

\*Transition Benefit provides for the greater of (a) the benefit as of 7/1/2015 under the current formula; or (b) the benefit upon retirement under the new formula, for members who are eligible for service retirement as of 7/1/2015.

# STRS Ohio Plan — Contribution Component



- ***Increase member and employer contributions by a total of 5% by 7/1/2020. Ultimately, members would contribute 12.5%; employers would contribute 16.5%.***
  - Member increase phased in 0.5% per year, beginning 7/1/2011 until 2.5% is reached on 7/1/2015; continue to contribute the additional 2.5% going forward.
  - Employer increase phased in 0.5% per year, beginning 7/1/2016 until 2.5% is reached on 7/1/2020; continue to contribute the additional 2.5% going forward.

## **Rationale:**

- Members and some employers (e.g., Inter-University Council) indicated support for a contribution increase in the past to support health care.
- Phased approach allows time for economy to improve.
- Phased approach also helps employers with budgeting.

# STRS Ohio Plan — FAS, Retirement Eligibility and Benefit Formula Components



- **Base final average salary (FAS) on five highest years of earnings, beginning 8/1/2015.\***
- **Beginning 8/1/2015,\* members may retire and receive an unreduced benefit:**
  - At any age with 35 years
  - At age 60 with 30 years
  - At age 65 with 5 years
- **Beginning 8/1/2015,\* members may retire earlier with an actuarially reduced benefit:**
  - At age 55 with 30 years
  - At age 60 with 5 years

Age and Required Years of Service for Unreduced Benefit			
Plan	Any Age	Age 60	Age 65
Current	30 years	N/A	5 years
Recommended	35 years	30 years	5 years
	Reduced benefit for age 55 with 30 years.		

Age and Required Years of Service for Reduced Benefit		
Plan	Age 55	Age 60
Current	25 years	5 years
Recommended	30 years	5 years**

\*An August start date enables teachers to complete the school year.

\*\*Benefit actuarially reduced.

# STRS Ohio Plan — FAS, Retirement Eligibility and Benefit Formula Components



- Benefit formula is 2.2% per year for first 30 years; 2.5% per year thereafter, beginning 8/1/2015.\* The 35-year enhanced benefit is no longer needed to encourage teachers to work longer and is eliminated.
- Under the recommended formula and eligibility rules, some members will be faced with a unique consequence of being eligible for a benefit on 7/1/2015, but not being eligible for a benefit or eligible for a lower benefit if they return to work after 8/1/2015.
- Those who are eligible for service retirement as of 7/1/2015 will receive the greater of:
  - (a) the benefit as of 7/1/2015 under the current formula; OR
  - (b) the benefit upon retirement under the new formula.

\*An August start date enables teachers to complete the school year.

# STRS Ohio Plan — COLA Component



- ***Beginning 7/1/2011:***

**Current retirees            2% annual COLA**

**Members retiring            1.5% annual COLA**  
**after 7/1/2011**

## **Rationale:**

- Helps to protect the purchasing power of current and future retirees' benefit.
- Provides the largest impact on unfunded liabilities of all the components.
- Without a change in the COLA, a viable Defined Benefit Plan cannot be sustained.

# Summary of STRS Ohio Plan Changes

(dollar amounts in billions)



	Baseline 7/1/2010	Plan Recommendation
Accrued Liability	\$94.84	\$85.85
Savings From Baseline	\$0.00	\$8.99
Assets	<u>\$55.96</u>	<u>\$55.96</u>
Unfunded Liability	\$38.88	\$29.89
Funded Status	59.0%	65.2%
Funding Period	Infinity	33.4
Contribution Rates		
Normal Cost*	14.24%	11.79%
Unfunded Accrued Liability	<u>8.76%</u>	<u>16.21%</u> (2020)
Total Pension Rate	23.00%	28.00% (2020)
Total Health Care Rate	<u>1.00%</u>	<u>1.00%</u>
Total	24.00%	29.00% (2020)

***Board-recommended changes reduce the funding period from infinity to 33.4 years.***

\*Normal Cost is the cost of benefits accumulated during the year by active teachers.

# STRS Ohio Plan



- Preserves Defined Benefit Plan for Ohio's public educators.
  - STRS Ohio members do not have to worry about outliving their benefits. They can also continue to provide income for their survivors.
  - Ohio's public schools, colleges and universities can continue to offer a retirement plan that will help recruit and retain quality educators.
  - Pension benefits received by STRS Ohio members can continue to support local economies; the taxes paid on these benefits can continue to support local, state and federal governments.
  - The likelihood of STRS Ohio members having to turn to public assistance, Medicaid or social services in retirement remains small, thus relieving taxpayers of future obligations.
- Continues 1% employer contribution to the health care fund.
- Allows for current and future active members, retirees and employers to collectively contribute to the solution.

# STRS Ohio Plan



- Provides a transition period for those teachers who are close to retirement.
- Recognizes that those further out from retirement have more time to plan for their future financial security.
- Allows members to continue to control their retirement decisions and not be “forced” out. This mitigates a potential “stampede” of members who want to retire before changes go into effect, thus preserving retirement patterns for STRS Ohio and protecting employers from veteran teachers leaving all at once.
- Preserves all past COLA and ad hoc increases for current retirees.
- Allows retirees’ pensions to grow in the future, but at a slower rate.
- Most importantly ...

***This plan enables the Retirement Board and staff to meet their fiduciary responsibility to help ensure the long-term solvency of STRS Ohio for future generations of teachers.***