THE OHIO STATE SENATE

INSURANCE, COMMERCE AND LABOR COMMITTEE

WITNESS FORM

Today's Date: 5/15/12

Name: KATHLEEN McCUTCHEON

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HILLIARD, OH

Telephone: 832-922-1328

Representing: THE OHIO STATE UNIVERSITY

Testifying on bill number: 342, 343

Testifying as: ✓ Proponent

___ Opponent

___ Interested Party

Are you a registered lobbyist? ___ YES ✓ NO

Are you submitting written testimony? ✓ YES ___ NO

Comments: ______________________________

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PROPONENT TESTIMONY ON SENATE BILLS 342 & 343
STRS & OPERS Pension Legislation

Kathleen McCutcheon
The Ohio State University

Senate Insurance, Commerce & Labor Committee
May 15, 2012

Good afternoon, Chairman Bacon, Vice Chairman Faber, Ranking Member Brown and members of the Senate Insurance, Commerce & Labor Committee.

I am Kathleen McCutcheon, Vice President and Chief Human Resources Officer for The Ohio State University. I have been on campus for just under a year. Prior to Ohio State, I served in the private sector as a human resource officer in the insurance, financial, medical and aerospace industries. During that time, I oversaw various pension benefits and plans, and I am well aware of the challenges facing retirement systems today.

I must add that it has been a pleasure to return to my home state. A native of Cleveland, I attended both Cleveland State and the University of Dayton. And now I have the opportunity of working with the more than 33,000 employees of Ohio State, most of whom are members of STRS and OPERS, as well as communicating from time to time with our retirees.

Key for Ohio State, as an employer, is the ability to offer a sustainable and secure pension and affordable health care to our employees in their years of retirement. Such a retirement plan is essential to recruiting and retaining skilled, visionary faculty and staff to support the university's mission of advancing the well-being of the people of Ohio and the global community through the creation and dissemination of knowledge.

Accepting change is never easy, as is the case with the recommended changes to the systems' retirement benefits and eligibility. But these changes are necessary for preserving the public retirement systems into the future, and stemming the losses that the systems are enduring with each day of delay. I might add that delaying also further compounds the uncertainty that our current and potential employees are facing, whether weighing the decision to work at the university, planning to retire, or considering leaving the university for other employment opportunities.

Given the changes that must be made, our employees have been appreciative of the efforts to soften the transition to retirement in STRS and OPERS' recommended plans, so that our faculty and staff would not have to work ten years beyond what they had previously planned. I think that the majority of our constituents are in alignment, and will support the changes.

I believe that everyone – including the STRS and OPERS boards, elected officials, university representatives, and other interested parties – have contributed to recommendations that balance individuals' needs with the need to ensure the long-term sustainability of the pension funds. When you look at the proposals and their evolution, it's evident that the boards carefully considered how to address the best interests of their members and the best interests of all Ohioans, and to share the burden across all beneficiaries of the systems.

On behalf of Ohio State, I want to thank Senate President Niehaus and Minority Leader Kearney for their sponsorship of this legislation, and urge this committee to accept the recommendations set forth by the State Teachers Retirement System of Ohio and the Ohio Public Employees Retirement System in Senate Bill 342 and Senate Bill 343, respectively.

INSURANCE, COMMERCE AND LABOR COMMITTEE

WITNESS FORM

Today's Date: 5-15

Name: Douglas Oliver

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Toledo

Telephone: 419-410-8122

Representing: Self

Testifying on bill number: 342 STRS

Testifying as: ___ Proponent

X Opponent

X Interested Party

Are you a registered lobbyist? ___ YES X NO

Are you submitting written testimony? X YES ___ NO

Comments: ___

Ohio's STRS Defined Benefit Pension Plan (STRS/DBPP) is Expensive, Unfair, and Regressive.

STRS/DBPP is seriously underfunded. STRS has proposed keeping the same basic program with a few changes to put the system closer to an actuarial sound footing. Unfortunately, there are many hidden costs in the STRS/DBPP that are unfair and will likely have serious detrimental unintended consequences.

I suggest that the legislature consider transitioning to a defined contribution plan or a hybrid retirement system with a capped moderate defined benefit pension coupled with a defined contribution component for retirement benefits above the cap.

1) **The STRS/DBPP proposal is unfair to new teachers and will encourage them to seek careers outside of the STRS system.** STRS has proposed to increase the contribution rate from 10% to 14% (25% to 29% total) to cover benefits. This increase in contributions may discourage many newly minted teachers and college faculty from teaching in Ohio. Ambitious young people are likely much more interested in higher pay and portability for their pension benefits. Further, new teachers earn about $38k per year, while many STRS retirees have pensions that are well above $70k. Hence, STRS seeks to have relatively poor new teachers pay 40% more to fund the pensions of many wealthy retirees.

2) **The STRS/DBPP results in higher personnel costs for school districts and encourages burned-out teachers to stay in the classroom for a full 30 years.** The STRS/DBPP pays off very little until after 30 years (currently 25 years), and it is not portable without substantial loss in value. Thus, it encourages mid-career teachers to remain teaching until they have taught for the full 30 years. Unfortunately, many teachers tire of teaching after 5-10 years. Tragically, many of these burned-out teachers remain teachers to insure that they collect their STRS/DBPP after 30 years. This costs school districts dearly since late-career teachers earn almost double what early-career teachers earn. Worse, the STRS/DBPP induces too many burned-out teachers to stay in the classroom – hindering our children's education.

3) **The STRS/DBPP is regressive, favoring highly paid personnel.** The STRS/DBPP calculates the benefit based on the highest 5 years (new plan) or 3 years (existing plan). This tends to benefit those at the top of the pay scales. Generally, both district superintendents and teachers started as entry-level teachers at a low pay scale. Later, after contributing for many years at a low scale, the superintendent may end his/her career earning $150k while a teacher ends his/her career earning $70k. Thus, the superintendent will retire with a far higher pension – even though she may have contributed at the teachers' lower rate for much of her career.

4) **The STRS/DBPP is not necessarily safer than the equities market.** The proposed STRS/DBPP will pay only 2% (simple interest) as cost of living adjustment (COLA). If the inflation rates of the 1960's – 1980's return, then STRS pensioners will be in deep trouble. For example, a $50k pension will grow to $70k in 20 years at 2% simple interest. With an average inflation rate of 8% the value of that $70k will be only worth only $15k in 20 years in inflation-adjusted dollars. (At 6% inflation - $22K, at 4% - $32k, and at 3% $39k). Hence, the STRS/DBPP, with COLA's at 2% simple interest is hardly a "safe" pension.

Conclusion: a defined contribution or a hybrid system will reduce many of the negative attributes of the STRS defined benefit program.

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INSURANCE, COMMERCE AND
LABOR COMMITTEE

WITNESS FORM

Today's Date: 5/15/12

Name: Bruce Johnson

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Cols OH 43215

Telephone: 614.464.1266

Representing: Inter-University Council of Ohio

Testifying on bill number: SB 341, 342, 343

Testifying as: ✓ Proponent

___ Opponent

___ Interested Party

Are you a registered lobbyist? ✓ YES ___ NO

Are you submitting written testimony? ✓ YES ___ NO

Comments: Support pension reform

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BEFORE THE SENATE INSURANCE, COMMERCE & LABOR COMMITTEE

SENATOR KEVIN BACON
CHAIR

TESTIMONY
OF
BRUCE JOHNSON
INTER-UNIVERSITY COUNCIL OF OHIO

MAY 15, 2012

Chairman Bacon and members of the Committee, good afternoon. Thank you for the opportunity to testify before you today on S.B. 341 (SERS), S.B. 342 (STRS), and S.B. 343 (PERS) – the three pension reform bills that impact employees at Ohio's public universities. My name is Bruce Johnson and I am the President and CEO of the Inter-University Council of Ohio. Thank you for realizing the urgency of this matter and recognizing the need to act now to reform Ohio's pension systems.

The IUC was established in 1939 as a voluntary educational association of Ohio's public universities. Today, the association represents all of Ohio's fourteen public universities. The IUC values providing access to a high quality, affordable education and is committed to efficiency and productivity for the more than 333,000 students attending our member institutions. The fourteen member institutions also employ over 80,000 faculty and staff, most of who contribute to OPERS, STRS, or SERS.

Collectively, Ohio's public universities represent the key to Ohio's future economic growth and stability. A critical component of the IUC's mission is the capability of each institution to attract and retain world-class faculty and highly talented staff. The quality of our faculty and staff is an attribute that differentiates Ohio from the rest of the country and our international competitors. An integral factor in achieving and maintaining the employment of world-class faculty and staff is a secure and competitive retirement program. For this reason, the IUC supports the recommendations that the three retirement systems have made to reform their respective funding plans.

The IUC supports the recommendations included in these three bills because the systems have essentially achieved the three goals most important to our public universities:

a.) Improving the health of each system and ensuring its long-term viability;
b.) Preserving the defined benefit plans offered to participants and retirees; and
c.) Preserving healthcare for retirees.

Importantly, these goals are achieved without increasing employer contribution rates. After reviewing the recommendations proposed by each system, the IUC believes that the burden of change is shared equitably among active employees and retirees, and between employers and employees.

Preserving a defined benefit plan will have a positive impact on faculty and staff attraction and retention efforts. These pension plans foster attachment between faculty and staff and their jobs. They also are consistent with public sector human resources goals. Maintaining a contribution for the preservation of the healthcare component will ensure the continuation of an affordable, pre-funded healthcare benefit for retirees. Such an investment will reduce the risk of poverty and material hardship among older Ohioans.

The IUC will continue to work with various stakeholder groups, like the HPA – Healthcare & Pension Advocates for STRS – to which we belong, the retirement systems, and the General Assembly as consideration of this legislation continues. While the plans have certain similarities, there are distinct differences in each plan's current funded status, member demographics, and plan design. The recommendations made by each system reflect those differences and the unique requirements of the participants and are appropriately designed to meet the need of the individual system. The IUC remains committed to helping shape the best pension systems in the country.

Thank you again, Mr. Chairman and members of the Committee. I am happy to answer any questions.

INSURANCE, COMMERCE AND LABOR COMMITTEE

WITNESS FORM

Today's Date: 5/8/12

Name: Sen. Tom Niehaus / Sen Eric Kearney

Address: Senate Bldg

Columbus, OH

Telephone: 466-8082

Representing: ____________

Testifying on bill number: ____________

Testifying as: ____ Proponent

____ Opponent

____ Interested Party

Are you a registered lobbyist? ____ YES ____ NO

Are you submitting written testimony? ____ YES ____ NO

Comments: ____________

Tom Niehaus
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Senate Insurance, Commerce and Labor Committee
Senator Niehaus-Sponsor Testimony
May 8, 2012

Chairman Bacon, Ranking Member Brown and members of the Insurance, Commerce and Labor Committee, thank you for giving me the opportunity to provide sponsor testimony on Senate Bills 340 (OP & F), 341 (SERS), 342 (STRS), and 343 (PERS).

Each of these bills represent the end product of extensive efforts by the boards of the state pension plans to address the challenging economic realities of providing retirement income to more than 400,000 retirees.

It is important to note these bills contain only those changes to current pension law requested by each of the boards of the Ohio Police and Fire Pension Fund (OP & F), School Employees Retirement System (SERS) State Teachers Retirement System (STRS) and Public Employees Retirement System (PERS).

First, let me start by thanking Minority Leader Kearney for agreeing to jointly sponsor these bills with me. I think that fact alone signifies how important pension reform is for all members of the Senate. Protecting the retirement incomes and health benefits of public employees is not a partisan issue.

I would also like to thank the four pension systems and their executive directors for helping us get to this point. I know they have been frustrated by our inaction over the last few years.

The changes contained in these plans are not popular, but they are necessary. I applaud the members of these plans for recognizing the economic necessity of accepting difficult choices in order to preserve their pensions and the opportunity to receive health benefits.

When I started having conversations with the directors several months ago about wanting to move pension reform bills, I made my expectations clear. If the Senate was going to move pension reform the plans had to help us by demonstrating clear stakeholder support. The four plans represented in these bills have done that. And it is still my hope the Highway Patrol Retirement System (HPRS) will be able to follow suit in short order.

Each of the plans addresses their fiduciary responsibilities a little differently. For that reason I will not delve into the details of each plan. The executive directors are here to testify on the specific provisions of their plans. I want to stress it is my desire to pass only what the boards have asked us to pass.

However, I would like to make clear to the committee how important I feel it is to act on the systems recommendations. With some systems losing close to $2 million per day for each day we don't act, we simply cannot wait any longer. Many of these recommendations were proposed in 2009 and have languished for the better part of two General Assemblies.

The longer we wait, the more we jeopardize the healthcare benefits provided by the boards. Some would rightfully argue that only the pension benefits are guaranteed, not healthcare benefits. While technically true, it ignores the long history, and I would argue, the implied contract, between retired public employees and their pension system that has allowed the plans to provide healthcare benefits.

While it is true that the General Assembly does not control healthcare benefits, the longer we wait to pass these reforms, the more likely it is that each of the five pension boards will take steps to reduce the healthcare benefits they offer in order to shore up the pension benefit side of the ledger.

I was recently asked "Why move forward now after not doing anything for years?" That is a fair question and, frankly, I am personally embarrassed that we haven't moved sooner. I hope we can rectify that in the coming weeks.

I will only be in a position to influence this legislation until the end of this year. I want to make sure that before I leave the legislature I have done all I can to preserve the benefits that more than 400,000 retirees have come to expect each month.

Chairman Bacon, with that, I will turn the podium over to my joint sponsor, Minority Leader Kearney.

State Senator
ERIC H. KEARNEY
9th District

Insurance, Commerce and Labor Committee
Senator Bacon, Chairman

Sponsor Testimony on Pension Legislation
(SB 340 - OP & F; SB 341 – SERS; SB 342 – STRS; SB 343 – PERS)
By
Senator Eric H. Kearney
May 8, 2012

Chairman Bacon, Ranking Member Brown and the members of the Insurance, Commerce and Labor Committee, thank you for opportunity to present sponsor testimony on Senate Bills 340, 341, 342 and 343.

The legislation we are introducing here today will strengthen our pension system and maintain its status as one of the best in the nation. And we will accomplish that goal without any additional tax money.

All long-term investments require periodic adjustments. The stock market goes up and down and the number of retirees changes. Our pension plans must adjust to reflect these changes.

My mother is a retired school teacher. And like many other retired Ohioans, she lives on a fixed income and depends on her retirement benefits to pay for groceries, utility bills and other necessities of life. These Ohioans are counting on us to make the necessary reforms to preserve their benefits.

Drafting this legislation has been a collaborative effort. I've had numerous conversations with interested parties and with members of my caucus. And based on those conversations, I am comfortable with putting my name on the legislation.

Some of the changes might not be popular with everyone. But, we are doing what needs to be done to protect retirement benefits for nearly two million retirees and future retirees.

It is important to point out that Ohio has one of the better managed pension systems in the nation. Historically, Ohio's pension plans have taken a prudent, conservative approach to investments to ensure stable and secure retirements for our public employees.

In fact, the Pew Center for the States has called Ohio a "Solid Performer", which is the organization's highest rating. That rating was handed out in 2010 when our economy was in worse shape than it is now.

Our state pension plans are losing two million dollars a day in savings while they wait for the General Assembly to finally act. Over 1.8 million Ohioans will be impacted by pension legislation. It is time to act now.

I want to thank President Niehaus for tackling this important issue on a bipartisan basis.

It's all too rare when the leaders of opposing parties in the General Assembly jointly sponsor legislation. The fact that it's happening now reflects our strong desire to pass pension legislation this year.

In closing, I would like to thank Chairman Bacon and the committee members for allowing me to offer sponsor testimony on

Senate Bills 340, 341, 342 and 343. I look forward to working with you throughout the process.

INSURANCE, COMMERCE AND LABOR COMMITTEE

WITNESS FORM

Today's Date: 5-8-12

Name: Michael Nehf

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Telephone: 614-227-4001

Representing: STRS Ohio

Testifying on bill number: SB 342

Testifying as: ✓ Proponent

____ Opponent

____ Interested Party

Are you a registered lobbyist? ✓ YES ____ NO

Are you submitting written testimony? ✓ YES ____ NO

Comments:

Senate Insurance, Commerce and Labor Committee
Michael J. Nehf, Executive Director
State Teachers Retirement System of Ohio
May 8, 2012

Chairman Bacon, Ranking Member Brown and members of the Senate Insurance, Commerce and Labor Committee, I am Michael Nehf, executive director of the State Teachers Retirement System of Ohio. Thank you for the opportunity today to provide you with details about STRS Ohio's pension reform plan. On behalf of our Retirement Board, staff and the 470,000 members of STRS Ohio, I extend our appreciation for the leadership role you are taking in bringing our board-approved plan to fruition.

STRS Ohio was established in 1920 — we have been providing retirement benefits since before the dawn of Social Security. STRS Ohio first addressed pension reform in 2009, submitting a board-approved plan in September of that year. We submitted amended proposals in October 2010 and January 2011 in response to constituent and Statehouse input. The pension plan changes that we have proposed represent the first time in STRS Ohio's history that benefit reductions are being sought. The decision to change benefits was difficult, but necessary to preserve the pension fund, and for the plan to meet its funding obligations. Without changes, STRS Ohio will eventually be unable to pay pensions. The Retirement Board's action was taken to uphold its fiduciary duty to the members and retirees of our system.

STRS Ohio staff members as well as the Retirement Board regard their fiduciary duty with prime importance. With this in mind, the board recently took a series of additional steps that were vital in creating a clear picture of the system's financial condition.

First, in August 2011 the board requested its investment consultant, Callan Associates, to conduct an asset-liability study to refine STRS Ohio's investment asset mix going forward. These studies are typically conducted every three-to-five years. This study resulted in the board selecting a new asset mix that its consultant said could be expected to earn a return in excess of 8% over the long term. However, the consultant also said the new mix is projected to return about 7.6% in the next five to ten years. He emphasized that if STRS Ohio's proposed pension reform plans are not implemented soon, a more conservative portfolio would be necessary to meet the system's liquidity needs to pay benefits.

Second, the board requested an actuarial experience review so it could have up-to-date analysis about the economic and demographic assumptions about future experience that are used to calculate pension liabilities. The system's actuarial consultant, PricewaterhouseCoopers, compared what actually happened in the three years since STRS Ohio's last review, versus what was expected to happen in the areas of mortality, service retirements, withdrawals, inflation, investment returns, salary growth and payroll growth.

Based on this review and the recommendation of PricewaterhouseCoopers, the board approved changes to several of its actuarial assumptions, including lowering its assumed investment rate of return to 7.75% from 8%. Even though the board's investment consultant said it could expect an 8% return or higher based on its new asset mix, the board approved the change to a more conservative return assumption. STRS Ohio is also changing its mortality tables to recognize that our members are living longer and therefore, the system is paying benefits longer.

These new actuarial assumptions, along with applying the data from the system's most recent actuarial valuation, had a negative net impact on the fund's solvency projections and are the primary reason that the funding period stretched the January 2011 proposal beyond 30 years. STRS Ohio also heard from constituents and legislators that the reform plan should have a smoother transition to new retirement eligibility rules for members who are nearing retirement. Factoring this into STRS Ohio's revised plan further extended the funding period.

The plan that I am presenting to you today was passed unanimously by the Retirement Board on April 19. The plan is also supported by the Healthcare and Pension Advocates for STRS — a coalition that is comprised of groups of active members, retirees and employers. The plan calls for no additional employer contributions, maintains a 1% employer contribution to STRS Ohio's health care fund and saves more than $13.3 billion in accrued liabilities.

The plan increases age and service requirements for retirement; calculates pensions on a lower, fixed formula; increases the period for determining final average salary; increases member contributions to the system; reduces the cost-of-living adjustment (COLA); defers the COLA for future retirees; and also calls for no COLA to be granted in fiscal year 2014.

Before addressing the specific changes, I would like to spend a moment on the STRS Ohio Health Care Program. I am confident that you share the Retirement Board's belief that a viable retirement is difficult to achieve if health care coverage is hard to obtain or financially prohibitive. The most recent valuation of STRS Ohio's health care fund showed a balance of $2.96 billion. The life of the fund extends to 2039 — an increase of about 15 years from last year's valuation. Our pension reform plan maintains a 1% employer contribution to the health care fund and allows the Retirement Board to continue working on a long-term strategic health care plan.

Mr. Chairman, members of the committee, we are continuing to educate STRS Ohio's constituents about the changes that the board approved on April 19 and we are asking for their continued support. STRS Ohio has used its website, newsletters and email news service to provide timely updates to the membership. Board and staff members also travel throughout the state to meet face-to-face with members to share details of the board's proposed plan. We know that you may hear from constituents who are unhappy about the Retirement Board's proposed changes, but without changes, the time will come when STRS Ohio will be unable to pay pensions.

The Retirement Board's proposed changes result in a plan to pay off the unfunded liabilities within a 30-year period, assuming our actuarial projections are met. The plan also provides for board authority to make future modifications to the plan to help maintain the plan's solvency.

Again, on behalf of the Retirement Board, staff and STRS Ohio members, I want to thank you for your willingness to preserve the pensions that help provide financial security for retired teachers and continue the steady flow of revenue into Ohio's 88 counties. You are maintaining a successful public policy dating back to 1920 and supporting continued investment in the state's future. If we can assist you in answering questions from your constituents, please let us know.

Terri Bierdeman and Marla Bump are both available to assist you by answering questions and providing data.

I would now like to review the chart detailing our proposed changes. To be respectful of your time this afternoon, I plan to review only the section that details the items related to our plan benefits. The materials also contain changes relating to the purchase of service credit and changes that affect the years of service that new members would need to be eligible for disability and survivor benefits.

Topic	Current Law	April 19, 2012 Plan
Contributions	**Employee:** Up to 10%, which is currently being collected. **Employer:** Up to 14%, which is currently being collected.	**Employee:** Beginning July 1, 2013, increase member contributions by 4%, phased in 1% per year beginning July 1, 2013, through July 1, 2016. **Employer:** No change.
Eligibility for Retirement	Eligible to retire with an **unreduced** benefit as follows: • Any age with 30 years of service. • Age 65 with 5 years of service.	Service credit requirements for retirement with an **unreduced benefit** would increase to 35 years of service by Aug. 1, 2023. A minimum age 60 requirement would be added beginning Aug. 1, 2026. This change will be phased in based on the timeline shown to the right. Members may still also retire at age 65 with a minimum of five years of service credit.
	For a **reduced** benefit: • Age 55 with 25 years of service. • Age 60 with 5 years of service.	The service credit requirements for an **actuarially reduced benefit** would be phased in beginning Aug. 1, 2015, gradually increasing to 30 years of service by Aug. 1, 2023. This change will be phased in based on the timeline shown to the right. Members may also still retire at age 60 with a minimum of five years of service credit, but the benefit would be actuarially reduced beginning Aug. 1, 2015.

Unreduced Benefit for Retirement Between:	Minimum Age and Years of Service
Now–7/1/2015	Any age and 30 yrs.; or age 65 and 5 yrs.
8/1/2015–7/1/2017	Any age and 31 yrs.; or age 65 and 5 yrs.
8/1/2017–7/1/2019	Any age and 32 yrs.; or age 65 and 5 yrs.
8/1/2019–7/1/2021	Any age and 33 yrs.; or age 65 and 5 yrs.
8/1/2021–7/1/2023	Any age and 34 yrs.; or age 65 and 5 yrs.
8/1/2023 –7/1/2026	Any age and 35 yrs.; or age 65 and 5 yrs.
8/1/2026	Age 60 and 35 yrs.; or age 65 and 5 yrs.

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

*An actuarially reduced benefit reflects a reduction for each year that a member retires before meeting eligibility for an unreduced benefit.

Topic	Current Law	April 19, 2012 Plan
Age and Service Reduction Factors	For members who retire with a reduced benefit, a reduction factor, established in statute, is applied to the base benefit.	Beginning Aug. 1, 2015, for members who retire with a reduced benefit, a reduction factor that will be determined by the actuary is applied to the base benefit.
Benefit Formula	2.2% of final average salary (FAS) for years 1–30; escalating formula for years beyond 30. With 35 or more years of service, the first 31 years are multiplied by 2.5%; then escalating formula.	Beginning Aug. 1, 2015, 2.2% of final average salary (FAS) for all years of service. The current 35-year enhanced benefit formula would be eliminated after July 1, 2015. Teachers retiring with 35 years of service as of Aug. 1, 2015, or later would receive 77% of their final average salary as a pension. Beginning Aug. 1, 2026, members will need to be age 60 to receive an unreduced benefit with 35 years of service. Members who are eligible to retire on July 1, 2015, would maintain retirement eligibility, and the benefit would be the greater of: (a) The benefit calculated upon retirement under the new benefit formula, or (b) The benefit as of July 1, 2015, under the current formula.
Final Average Salary (FAS)	Three highest years of earnings.	Beginning Aug. 1, 2015, FAS calculation would be the average of the **five** highest years of earnings.
Cost-of-Living Adjustment (COLA)	Annual 3% simple COLA beginning 12 months after effective date of retirement.	Changes to the COLA, effective in fiscal year 2013: • Members who retired any time BEFORE July 1, 2013, would not receive a COLA during the 2014 fiscal year (July 1, 2013–June 30, 2014). For example, a member who retired on Aug. 1, 1997, would not receive a COLA on Aug. 1, 2013. • Members who retire effective July 1, 2013, would not receive a COLA on July 1, 2014. • After missing one COLA, retirees would resume COLAs at 2% per year. • Members retiring AFTER July 1, 2013, would also receive a 2% COLA, but it would not begin until the fifth anniversary of retirement. For example, a member who retires Aug. 1, 2013, would receive his or her first COLA on Aug. 1 2018, and that COLA would be 2%.

Topic	Current Law	April 19, 2012 Plan
Disability Benefits	Five years of earned Ohio service is required for eligibility. Members may apply for disability up to two years after last date of earned service.	**For new members July 1, 2013, and later:** Increase the service requirement for eligibility to 10 years of earned Ohio service. Reduce time period members can apply for disability to one year after last date of earned service.
Disability Benefits	Member who returns to work and earns two years of service credit receives credit toward service retirement for the time on disability.	**For all members beginning July 1, 2013:** Service credit granted upon a member returning to work would match either (1) return-to-work service up to five years, or (2) time on disability, whichever is less.
Survivor Benefits	1.5 years of earned Ohio service is required for eligibility. Member is eligible for survivor benefits up to 27 months after last date of service.	**For new members July 1, 2013, and later:** Increase the service requirement for eligibility to five years of earned Ohio service. Reduce the time period for survivor benefit eligibility to 12 months after last date of service.
Service Credit Purchases	Statute establishes the cost of certain types of service credit purchases.	Eliminate purchase service subsidies and require members to pay the projected liability created by the purchase of service.

Benefit Formula Changes

Year	% FAS per year
1955	1.50%
1959	1.65%
1965	1.75%
1968	1.90%
1971	2.00%
1989	2.1%; 2.5% for each year above 30
1997	2.1%; 2.5% for 31st, 2.6% for 32nd and so on
1999	2.2%; 2.5% for first 30 years if 35 total contributing years

Retirement Eligibility

Year	Eligibility
1921	Any age with 36 years Age 60 with 5 years
1945	Any age with 36 years Age 55 with 30 years Age 60 with 5 years
1953	Any age with 36 years Age 55 with 25 years Age 60 with 5 years
1965	Any age with 35 years Age 55 with 25 years Age 60 with 5 years
1973	Any age with 32 years Age 55 with 25 years Age 60 with 5 years
1976	Any age with 30 years Age 55 with 25 years Age 60 with 5 years

Final Average Salary Changes

Year	FAS
1920	10 years
1955	5 within last 10 years
1959	5 at any time
1974	3 years

Monthly Retiree Benefit Increases

Year	Legislation	Current retirees receiving increase	July 2010 benefits paid under increase
1957	10%–100% increase based on year of retirement	2	$8
1959	Survivor increase	3	$17
1965	Additional $10 per month	100	$775
1968	2% to 24% increase based on year of retirement	192	$1,246
1972	Additional $2 per month per year of retirement	99	$1,258
1973	Survivor benefit increase	81	$1,398
1974	Additional $2 per month per year of retirement	243	$1,552
1974	5% to 33% increase based on year of retirement	415	$10,312
1976	Minimum $140 per year of service	181	$18,584
1979	5% increase for first $5,000 in benefit if retired before 1974 (with five-year FAS)	885	$13,075
1984	5% increase in full benefit	10,132	$368,410
1988	1.45% to 4.15% based on year of retirement before 1979	4,275	$60,759
1990	1.45% to 4.15% based on year of retirement before 1979	4,235	$64,031
1997	Increase to at least 70% of original purchasing power with minimum 3% increase if retirement before 1979	4,622	$578,307
1999	Recalculation of retirement benefit on 2.1% formula	8,266	$1,695,336
1999	Further increase to bring benefit to minimum of 85% purchasing power of original benefit	27,818	$1,925,066
TOTAL		**61,549***	**$4,740,135****

* The total is the sum of the categories; many retirees receive multiple benefit increases.

**STRS Ohio pays more than $57 million per year in benefit enhancements over and above the retirement formula under which the member retired.

Contribution Rates

Year	Member	Employer
1950–1951	5%	7.25%
1951–1952	6%*	8.50%
1952–1953	6%	8.00%
1953–1954	6%	8.00%
1954–1955	6%	8.00%
1955–1956	6%	9.25%
1956–1957	6%	9.25%
1957–1958	6%	9.25%
1958–1959	6%	9.33%
1959–1960	7%**	10.41%
1960–1961	7%	10.41%
1961–1962	7%	10.41%
1962–1963	7%	10.41%
1963–1964	7%	10.41%
1964–1965	7%	11.00%
1965 (calendar)	7%	11.00%
1965–1966	7%	11.27%
1966 (calendar)	7%	11.50%
1966–1967	7%	11.50%
1967–1968	7%	11.50%
Eff.7-1-1968	7.8%	11.50%
1968–1969	7.8%	11.50%
1969–1970	7.8%	12.90%
1970–1971	7.8%	12.90%
1971–1972	7.8%	12.90%
1972–1973	7.8%	12.90%
1973 (calendar)	7.8%	12.90%
Eff.1-1-1974	8.0%	12.55%
1973–1974	7.93%	12.66%
1974–1975	8.0%	12.55%
1975–1976	8.0%	12.55%
1976–1977	8.0%	12.55%
1977–1978	8.5%	13.50%
1978–1979	8.5%	13.50%

Year	Member	Employer
1979–1980	8.5%	13.50%
1980–1981	8.5%	13.50%
1981–1982	8.5%	13.50%
1982–1983	8.5%	13.50%
1983–1984	8.66%	13.75%
Eff.1-1-1984	8.75%	14.00%
1984–1985	8.75%	14.00%
1985–1986	8.75%	14.00%
1986–1987	8.75%	14.00%
1987–1988	8.75%	14.00%
1988–1989	8.77%	14.00%
1989–1990	8.77%	14.00%
1990–1991	9.25%	14.00%
1991–1992	9.25%	14.00%
1992–1993	9.25%	14.00%
1993–1994	9.25%	14.00%
1994–1995	9.30%	14.00%
1995–1996	9.30%	14.00%
1996–1997	9.30%	14.00%
1997–1998	9.30%	14.00%
1998–1999	9.30%	14.00%
1999–2000	9.30%	14.00%
2000–2001	9.30%	14.00%
2001–2002	9.30%	14.00%
2002–2003	9.30%	14.00%
2003–2004	10.00%	14.00%
2004–2005	10.00%	14.00%
2005–2006	10.00%	14.00%
2006–2007	10.00%	14.00%
2007–2008	10.00%	14.00%
2008–2009	10.00%	14.00%
2009–2010	10.00%	14.00%
2010–2011	10.00%	14.00%
2011–2012	10.00%	14.00%

**6% of total earnings
**7% of total earnings

STRS Ohio Health Care Program
Fact Sheet

Annual Gross Spend for CY 2011	Medical $384 million Drug $211 million Medicare B Reimbursement $45 million TOTAL $640 million
Enrollment as of May 2012	*Enrollees* *Percent* Medicare 85,642 70% Non-Medicare 35,948 30% TOTAL 121,590* 100% *85% of STRS Ohio benefit recipients with health care reside in Ohio
Total Annual Premiums Collected in CY 2011	$233 million
Individual Monthly Premium for a 30-year Benefit Recipient in CY 2012	*Retiree* *Spouse* Non-Medicare Basic ($1,500 deductible) $152 $543 Non-Medicare Plus ($500 deductible) $289 $1,032 Medicare Advantage ($500 deductible) $81 $290
Prescription Drug Coverage in CY 2012	*Retail Copayments* *Mail–Order Copayments* Tier 1 $10 $25 Tier 2 $30 $75 Tier 3 50% (Max $100) 50% (Max $200)
Projected Solvency of Program as of Feb 2012	2039
Employer Contribution	1% of 14%
Eligibility	15 years of service
Medicare B Reimbursement in CY 2012	Medicare B reimbursement: $29.90 to $52.83 per month Total Medicare B premium: $99.90 per month
Spouse and Dependent Coverage	Access to coverage but no subsidy
Average Age of Enrollees in CY 2011	70
Top Five Conditions for Enrollees by Total Spend in CY 2010-2011	*Medicare* 1. Ischemic heart disease 2. Joint degeneration 3. Diabetes 4. Hypertension 5. Chronic Renal Failure *Non-Medicare* 1. Joint degeneration 2. Ischemic heart disease 3. Malignant neoplasm breast 4. Diabetes 5. Hypertension

INSURANCE, COMMERCE AND LABOR COMMITTEE

WITNESS FORM

Today's Date: 5-9-2012

Name: Adam Schwiebert

Address: 2900 Craig's Way, Apt. B Upper Arlington, OH 43221

Telephone: (419) 966-6255

Representing: The Buckeye Institute for Public Policy Solutions

Testifying on bill number: 340, 341, 342, 343 - Will only testify once on all ~~will test~~ ~~4~~ bills.

Testifying as: ___ Proponent

___ Opponent

✓ Interested Party

Are you a registered lobbyist? ___ YES ✓ NO

Are you submitting written testimony? ✓ YES ___ NO

Comments: ______

Interested Party Testimony on Public Pension Reform for the Senate Committee on Insurance, Commerce and Labor

Adam M. Schwiebert, Diehl Family Fellow
The Buckeye Institute for Public Policy Solutions
May 9, 2012

Thank you Chairman Bacon, Vice Chair Faber, Ranking Member Brown and members of the committee for providing the Buckeye Institute this opportunity to discuss how Ohio can best reform its public pension systems. My name is Adam Schwiebert; I am the Diehl Family Fellow at the Buckeye Institute for Public Policy Solutions.

The Buckeye Institute is a non-profit, non-partisan, free-market think tank. To that end, we believe that a low tax, limited regulation environment best attracts business, fosters job growth, and results in stronger, more vibrant communities.

Public pension reform is a multi-billion dollar issue that affects all Ohioans—from the government employees who rely upon these programs for retirement income to the private-sector taxpayers who help fund them. Reforming these systems will undoubtedly have a significant impact on Ohio's fiscal health years and decades into the future. Thus, the stakes are high.

The guiding principle of reform should be to establish public retirement systems that provide reasonable retirement benefits at a sustainable cost to taxpayers. Under the current system, that principle is not being upheld.

As you are well aware, Ohio faces a serious pension dilemma. Unfunded pension liabilities from Ohio's five public pension funds total roughly $70 billion—an amount equivalent to 126 percent of the biennial budget. Collectively, those pension funds are roughly 67 percent funded. (A funding ratio above 80 percent is generally considered to be fiscally sound.[1]) According to the latest comprehensive annual financial reports of each pension system, three of the funds are well beyond the statutorily required 30-year amortization window. Clearly this trajectory is unsustainable.

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[1] "State and Local Government Pension Plans, Current Structure and Funded Status," Testimony before the Joint Economic Committee, Government Accountability Office, GAO-08-983&, July 10, 2008. <http://www.gao.gov/assets/130/120599.pdf>

While the need for reform is obvious, the path forward is less clear. In recent years, over 40 state legislatures have enacted significant pension reform legislation.[2] The degree of reform has ranged from small adjustments to existing plans to the wholesale restructuring of the defined-benefit system.

While any reform is superior to the status quo, the Buckeye Institute believes that any worthwhile reform must be forward thinking, fiscally responsible, and equitable to both public employees and taxpayers. That type of reform is best achieved, as we articulate in our report *Hanging By a Thread*, through a transition away from the status quo defined-benefit system to either a mandatory defined-contribution plan or defined-benefit/defined-contribution hybrid.

The proposals offered by each of the retirement systems fall short of the level of reform that we recommend. While the Buckeye Institute is supportive of several of the recommended reforms, we believe that, as a whole, the proposals represent a short-term solution to a fundamental problem.

Defined-contribution and hybrid reforms are needed for at least three reasons: lower costs, less risk, and greater portability.

A debate on cost savings through public pension reform must begin with a discussion of overall equity between the public and private sectors in terms of retirement income. By many measures, the retirement benefits received by government workers in Ohio, on average, are more generous than those received in the private sector. A good method to compare the generosity of retirement plans is to compare contribution rates.

The average Ohio government employee receives a 14 percent contribution of salary from his or her employer, in this case, taxpayers. That contribution will then be matched by a 10 percent employee contribution. (Public employees do not participate in Social Security in Ohio.) Meanwhile, the average private-sector worker in Ohio receives a 6.2 percent employer contribution toward Social Security and an average 4.0 percent contribution to a 401(k), totaling 10.2 percent of pay.[3] The employee then matches this 10.2 percent contribution as well.

The resulting 14 to 10.2 percent differential provides government employees with a significant financial advantage over private-sector workers. To see how this difference benefits career government employees at retirement, please visit the Buckeye Institute's retirement comparison calculator at www.buckeyeinstitute.org/pensions101/.

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[2] Snell, Ronald. "Pensions and Retirement Plan Enactments in 2011 State Legislatures," National Conference of State Legislatures, 4 May 2012.
[3] Mayer, Matt. "The Grand Bargain is Still Dead," The Buckeye Institute for Public Policy Solutions, 7 May 2012.

Our calculations indicate that Ohio could save $3.3 billion over the course of 30 years by establishing a defined-contribution plan equivalent to private-sector standards.[4] Additionally, defined-contribution systems accrue no unfunded liabilities, which would begin to wind down Ohio's pension debt once and for all.

Equally important to cost savings is reducing risk exposure to taxpayers. Again, both defined-contribution plans and hybrid models are superior to defined-benefit systems.

Under the current defined-benefit pension plans, government employees face zero risk in securing their retirement income. Regardless of financial market performance, retiree benefits must be paid, as required by law. The responsibility to pay these benefits falls squarely into the laps of taxpayers.

Private-sector workers face substantially more risk in securing their retirement income. While Social Security payments to private sector retirees are guaranteed (although serious questions about the program's long-term fiscal viability are well known), the investment risk of 401(k) plans fall on the individual.

While a full-blown defined contribution plan would be the gold standard to avoid potential taxpayer risk, a mandatory hybrid pension plan would still be a better reflection of the risk that private-sector workers face than the current system. Under a hybrid system, public employees would be provided a smaller, taxpayer guaranteed defined-benefit pension and an accompanying defined-contribution account to provide the remainder of retirement savings. Risk is spread more equitably and unfunded liabilities are limited.

It should also be noted that each of Ohio's pension funds assumes a rate of investment return (between 7.75 and 8.25 percent) that many deem to be overly optimistic. When returns fall short, as they have over the past decade, liabilities increase, putting an even greater burden on taxpayers. And to achieve these high investment goals, the pension systems have devoted larger portions of their portfolios to higher risk investments such as hedge funds, private equity investments, and real estate.

Instead of pursuing high investment returns at significant risk to taxpayer dollars, Ohio's pension funds should adopt more conservative investment assumptions—Indiana recently lowered its investment assumption to 7 percent. Doing so would put taxpayer investments on firmer fiscal footing and less subject to volatile and unpredictable financial markets.

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[4] McCleary, Mary. "The Impact of Shifting Ohio State Workers from Defined Benefit Plans to Defined Contribution Plans," The Buckeye Institute for Public Policy Solutions, 4 May 2012.

Finally, defined-contribution and hybrid plans offer workers greater control and ownership of their retirement and greater portability. The current system is designed for workers to join the system and retire 30 years later. Today's economy is different. Today's college graduates are entering a workforce where in-demand skills change rapidly—as such, multiple career changes have become more commonplace. There must be enough flexibility built into the systems to allow easy access in and out of public service. Public sector retirement plans must adapt to this new economic model; the best way to do that is with defined-contribution and hybrid reforms.

Perhaps the greatest evidence of the benefits of defined-contribution and hybrid plans is the states. A growing number of states have either passed comprehensive pension reform legislation or are actively debating such proposals today.

Washington, DC transitioned to a defined-contribution plan in 1987. Michigan closed its defined-benefit pension plan to state employees in 1997, offering a defined-contribution plan, and has saved the state upwards of $2.3 billion.[5] Utah ended its defined-benefit plan in 2010, offering the choice of either a defined-contribution plan or a hybrid model. In late 2011, Rhode Island overwhelmingly passed, on a bipartisan basis, mandatory hybrid legislation for its state employees. And just last month, Virginia established its own mandatory hybrid plan for state employees.

Additional legislation that moves states away from the defined-benefit structure is almost certain to come in future years. California Gov. Jerry Brown has proposed a hybrid plan to address his state's well-known pension crisis. Aggressive reform legislation is also currently being debated in Kansas and Louisiana.

The movement of states away from defined-benefit system mirrors the activity of the private sector. For over a decade, private businesses have been shedding their defined-benefit plans in favor of defined-contribution solutions. General Motors is just the latest example of private business closing its defined-benefit pension plan to limit future liabilities and create a more sustainable and predictable fiscal future.

In the end, public pension reform is not a question of partisanship or ideology—it is one of math. For many years Ohio could afford its defined-benefit pension plans. Taxpayers could afford to take on endless risk and provide guaranteed pensions to government employees, regardless of market performance. Those days are gone.

Digging out of this fiscal hole has provided Ohio a unique opportunity to create retirement systems that are built to last. But this is only achievable if legislators are forward thinking.

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[5] Dreyfuss, Richard. "Estimated Savings from Michigan's 1997 State Employees Pension Reform Plan Reform," Mackinac Center for Public Policy, 7 May 2012.

Ohio has a choice. We can either be bold and embrace defined-contribution and hybrid plan solutions and save taxpayer dollars, reduce risk, and create greater portability for a rapidly changing workforce; or, we can continue down the well trodden path of employing tepid solutions to our most pressing problems.

Thank you for your time. I would be more than willing to answer any questions you may have for me.

Witness Information Form

Please Complete the Witness Information Form Before Testifying

Date: 9-5-12

Name: Jay Smith & Barbara Shaner

Organization (If Applicable): OSBA & OASBO

Position/title:

Address: 8050 N. High St

City: Columbus State: OH Zip:

Telephone: 614-540-4000

Email: jaysmith@ohioschoolboards.org

Are You Representing: Yourself____ Organization's X

Do You Wish to Testify On:

- Legislation (bill number): SB 341, 342
- Specific issue:
- Subject matter:

Are You Testifying as a:

- Proponent: X
- Opponent:
- Interested Party:

Do you have a written statement, visual aids, or other material to distribute?

Yes X No___

(If yes, please provide copies to the Chairman or Committee Clerk)

How much time will your testimony require? 5 min.

- *Committee Chair may limit testimony in the interest of time*

August 29, 2012

The Honorable Kirk Schuring
Chair, House Subcommittee on Pension Reform
Ohio House of Representatives
77 South High Street
Columbus, OH 43215

Re: SB 341, SB 342

Dear Chairman Schuring:

On behalf of the Ohio School Boards Association and the Ohio Association of School Business Officials, we greatly appreciate the work you and the subcommittee have done in moving the pension reform packages contained in Senate Bill (SB) 341, and SB 342 forward while thoroughly vetting the legislation.

The changes contained in these bills are necessary in order to have long-term fiscal stability within our public pension funds. A strong public pension system is an important part of the benefit package that school districts can offer employees, allowing for the recruitment and retention of quality staff. We understand the need for changes that will make the systems sustainable for the long term and we agree that the current recommendations from STRS and SERS will help to secure the viability of the state's public systems for current and future retirees.

We understand that substitute bill language is currently being reviewed by the pension systems with a few changes being made to the Senate passed legislation. With that said, we support an effective date for the general legislation of January 7, 2013, allowing time for organizations to get processes in place to implement these changes. We also are supportive of the STRS request for delayed implementation dates on a few specific provisions.

In addition, we are supportive of the delay in language providing the STRS and SERS Board's authority to make changes in the future should a need or opportunity arise. We appreciate the work and desire for the Ohio Retirement Study Council and the legislature to delay implementation of these items for 180 days after the bill's effective date in order to more fully review these proposals.

Our organizations have worked with the two systems as the process has moved along to be sure that the interests of the employers, our members, be reflected in the final recommendations. We are hopeful that the Senate will concur with these changes made by the House in SB 341 and SB 342.

Sincerely,

Jay Smith

Jay Smith, Lobbyist
Ohio School Boards Association, 614-540-4000

Barbara Shaner

Barbara Shaner, Associate Executive Director
Ohio Association of School Business Officials, 614-325-9562

WITNESS INFORMATION FORM

PLEASE COMPLETE THE WITNESS INFORMATION FORM BEFORE TESTIFYING

DATE: 9/5/12

NAME: DARORD Johnson

ORGANIZATION: Ohio Federation Teachers
(IF APPLICABLE)

POSITION/TITLE: legislative Dir

ADDRESS: 1251 E Broad St

CITY: Cols STATE: Oh ZIP: 43205

TELEPHONE: ______

ARE YOU REPRESENTING: YOURSELF______ ORGANIZATION ✓

DO YOU WISH TO TESTIFY ON
LEGISLATION (BILL NUMBER): SB 341, 342, 343
SPECIFIC ISSUE: ______
SUBJECT MATTER: ______

DO YOU FAVOR ✓ OR OPPOSE ______ THE ENACTMENT OF LEGISLATION REGARDING THIS ISSUE?

PLEASE GIVE A BRIEF STATEMENT OF THE GROUNDS ON WHICH YOU FAVOR OR OPPOSE SUCH ENACTMENT:

WILL YOU HAVE A WRITTEN STATEMENT, VISUAL AIDS, OR OTHER MATERIAL TO DISTRIBUTE?
YES ✓ NO____
(IF YES, PLEASE PROVIDE COPIES TO THE CHAIRMAN OR SECRETARY)

HOW MUCH TIME WILL YOUR TESTIMONY REQUIRE? 1 min

Ohio Federation of Teachers AFT, AFL-CIO
A Union of Professionals

1251 E. Broad Street
Columbus, OH 43205

House Health and Aging Retirement and Pensions Subcommittee
Proponent Testimony SB 341, SB342, SB343
Darold Johnson, Legislative Director, Ohio Federation of Teachers
September 5, 2012

The Ohio Federation of Teachers 20,000 members that participate in the STRS, SERS and OPERS pension systems, supports the State Teacher Retirement System (STRS) plan approved by the Board on April 19, 2012, and the other plans as amended in the House.

OFT is a member of the Health Care and Pension Advocates (HPA) for STRS. HPA supports the STRS Board-approved funding plan after extensive deliberations, interactions with our constituents, consultation with the System's staff and an exhaustive review of funding and actuarial data. We strongly believe that the provisions of this plan address issues of critical importance to our members and achieve much-needed improvements in the funding status of the pension fund; therefore, OFT joined HPA in urging your support of this plan and speedy passage of this legislation.

Additionally, STRS staff members have recently made OFT aware of two technical amendments that the System seeks regarding effective dates for two specific, minor provisions in the Bill. OFT along with HPA have had the opportunity to review the proposed amendments and the rationale for each amendment. OFT and HPA supports STRS' proposed amendments and encourages the House to adopt the amendments.

In 2010, OFT passed a resolution that called for the General Assembly to approve the STRS board-approved plan at that time. We extend this support to the newest version of the plan. This plan will preserve the defined benefit retirement plan that plays such a vital role in both local and state economies while at the same time preserving health care for our retirees.

Though the majority of our members belong to STRS, we also have members who are part of SERS and OPERS. We also support the plans approved by their respective boards, which preserve both the defined benefit and health care.

Chairman Schuring, I know you are process oriented and I want to thank you for the inclusive approach the House is taking in considering the important issue of public pension reform. I appreciate the opportunity to share our views and express our support for Sub. S.B. 342, S.B. 341, and S.B. 343, which will bring much needed stability to the funding of the retirement systems pension and healthcare benefits.

I thank the committee for your consideration and urge passage these bills.

TO THE SPEAKER OF THE OHIO HOUSE
OF REPRESENTATIVES

129TH GENERAL ASSEMBLY

IN COMPLIANCE WITH HOUSE RULES 111 AND 112, I HEREBY NOTIFY THE CHAIR THAT I WILL BE PHOTOGRAPHING, VIDEOTAPING, OR RECORDING A PORTION OF THE__________________ COMMITTEE OF THE HOUSE OF REPRESENTATIVES.

NAME: Dr. Dennis Leone

ORGANIZATION: None (a retiree)

PURPOSE: Wish to speak on proposed SB 342

COMMITTEE DATE: 9-5-12

TIME: 1:00 p.m.

FOR HOUSE MEMBER (IF APPLICABLE):__________________

LEGISLATIVE CORRESPONDENTS' ASSOCIATION OR RADIO AND TELEVISION CORRESPONDENTS' ASSOCIATION MEMBER?

YES________ NO________

IF "NO", HAVE YOU RECEIVED TEMPORARY CREDENTIALS FROM THE APPROPRIATE ASSOCIATION?

YES________ NO________

IF NOT, I HEREBY REQUEST THE CLERK TO GRANT ME ACCESS TO VIDEOTAPE OR AUDIOTAPE THE COMMITTEE OF THE HOUSE.

9-5-12 — Dennis Leone

(DATE) (SIGNATURE)

REQUEST APPROVED:__________________

LAURA P. CLEMENS
CLERK

** THE VIDEOTAPE OR AUDIOTAPE OF ANY OR ALL PORTIONS OF THE COMMITTEE MAY NOT BE USED FOR POLITICAL PURPOSES OR PERSONAL GAIN. THE RECORDED MATERIAL MAY BE USED FOR EDUCATIONAL OR INFORMATIONAL PURPOSES ONLY.*

September 5, 2012
House Health and Aging Sub-Committee on Retirement and Pensions
State Representative Kirk Schuring, Chair

I wish to address the Sub-Committee today as a State Teachers Retirement System (STRS) retiree and as a former elected retiree member of the STRS Board. I am disagreement with some provisions of proposed Senate Bill 342, as summarized below:

1. The STRS Board is seeking authority pursuant to Section 3307.26(6) and Section 3307.67(E) of proposed SB 342 to make future changes in the contribution rate of active teachers and the Cost of Living Adjustment (COLA) of retirees without a formal stamp of approval by the State Legislature. Specifically, as written, the language would authorize the STRS Board to ONLY reduce to the annual contribution rate of active teachers – while at the same time – lower or increase the annual COLA that retirees receive. While it may not have been the spirit of the STRS Board's plan to put more money in the pockets of active teachers at the expense of retirees, the net effect of the language before you could result in the STRS Board doing just that.

   Your first reaction to what I've just said might be that this could never happen politically. I can tell you with first-hand knowledge as a former STRS Board member that these things can happen in the future and has happened in the past due to OEA influence on the STRS Board. When the STRS Board, at the urging of active teachers (some of whom were active teachers sitting on the Board), created the ill-advised and costly 88% benefit, it also was reducing dollars going to health care for retirees at the same time. And 3 years after the 88% benefit went into effect, what did the STRS Board do? It completely eliminated health insurance for spouses of retirees. There are other examples in the past of how the board has taken care of active teachers or given costly benefits to STRS staff members at the expense of retirees. Yes, that was in the past, (and I am a person who can provide specific examples of what has happened if you have any doubts), but believe me when I say that it can happen again in the future.

   These 2 sections of proposed SB 342 previously mentioned definitely need to be re-worded so that the language will prohibit the STRS Board in the future from taking action that will put more money in the pockets of active teachers at the expense of retirees.

2. Section 3307.58(1)(b) of proposed SB 342 will provide an overly generous 14-year phase-out, let me repeat that – a 14-year phase-out – of the current retirement eligibility criteria. Retirees have NEVER been given a phase-out for ANY reduction in benefits they've had. The elimination of the 13^{th} check wasn't phased-out . The total elimination of health insurance for retirees' spouses wasn't phased out. The upcoming reduction in retiree's COLA will not be phased-out. No sir . All changes that affect retirees always are immediate. This is no regard or grandfathering, none, for the oldest retirees who have the least. Do you realize that there are 30,000 STRS retirees who retired with a Final Average Salary of less than $30,000? No one seems to substantially care about them because they really don't have a voice. They are the least able to object to changes. You don't see OEA today seeking a phase-out of the reductions affecting these oldest retirees, do you? I guarantee you that if there was NOT a slow, gradual 14-year phase-out of the current retirement eligibility criteria in the plan before you, OEA would raise a stink with the STRS Board. I urge you to consider what I have said here today.

Dennis Leone, STRS Board Member (2005-2009)
Former Superintendent of Schools in Ohio for 23 years (Liberty Center, Talawanda, Chillicothe).

Chairman Kirk Schuring and Members of the House Health and Aging Subcommittee on Retirement and Pensions,

I am a disabled retired teacher who did not receive a disability retirement from STRS. I am unable to work anywhere due to my disability.

Thank you for taking the time to listen to the problems I have encountered with the State Teachers Retirement System. Because of the cutbacks in healthcare insurance I have had to take a mortgage and a second mortgage on my home.

Can any of you imagine how it would be at age 65, 70, or even 80; you receive a letter that says your retirement system is going to wean you off your health insurance. You have no Medicare without the retirement system insurance and while premiums continually increase, the healthcare benefits continue to decrease. The prescription costs are rising faster than you can afford. It looks to be impossible in the future to meet your costs for life-necessary medications. You are now old, unable to work, and the healthcare you were vested by the Ohio Revised Code and the Ohio Administrative Code to receive for no cost, will not be there for you. You have paid into the State Teachers Retirement System which guaranteed all during your teaching career that it was your insurance in retirement, Medicare A and B. Through 1997 teachers and other primary benefit recipients received insurance for $0.00 premiums. This is how the ORC (Ohio Revised Code) read from 1976 through 1997 for which you were vested.

3307-1-22 Health care services

Pursuant to the provisions of sections 3307.74, 3307.33 and 3307.405 of the Revised Code, the state teachers retirement board establishes the following rule:

(A) Benefit recipients are eligible for health care benefits on the following basis:

(1) The state teachers retirement board hereby waives the single rate monthly conventional premium costs for retirants or other primary benefit recipients whose benefits are based on not less than one and one-half years of credit for Ohio service and who are enrolled in the Ohio retirement systems health care plan or such health maintenance organizations as the board may approve.

THIS IS HOW THE OHIO ADMINISTRATIVE CODE READ IN 1976 - 1997

3307-1-22 Health care services

Pursuant to the provisions of sections 3307.74 and 3307.405 of the Revised Code, the state teachers retirement board establishes the following rule:

(A) The state teachers retirement board shall pay all of the single rate monthly premium costs for retirants or other primary benefit recipients whose benefits are based on not less than one and one-half years of credit for Ohio service and who are enrolled in the Ohio retirement systems health care plan or such health maintenance organizations as the board may approve.

(B) The retirement board shall continue to enroll all eligible dependents, as determined by the retirement board, who elect such coverage.

(C) The effective date of health care coverage for benefit recipients and enrolled dependents shall be determined as follows:

(1) Disability retirement—plan coverage shall begin on the first of the month following retirement board approval of the benefit payment.

(2) Service retirement or survivor benefits—plan shall begin on the first of the month following date application is filed with the state teachers retirement system or effective date of retirement, whichever is later.

(D) Effective January 1, 1977, each benefit recipient age 65 or older shall provide the board with certification of participation in the Medicare "B" insurance program. Each benefit recipient who reaches age 65 in the future shall certify such participation. Upon receipt of proper certification the board shall pay to each such person an amount equal to the basic premium for such coverage.

Reimbursement shall be further determined as follows:

(1) No payment shall be made for any period prior to date of eligibility for regular health care coverage as set forth in (C) above.

(2) A benefit recipient is entitled to reimbursement from one system only.

HISTORY: Eff. 11-28-77
Am. 12-23-76
Authority: R.C. 3307.405 and 3307.74

Note: This rule was filed pursuant to section 111.15 of the Revised Code.

Note: The substance of this rule was first adopted by the State Teachers Retirement Board as a Board Policy on June 18, 1976 and has been continuously in effect since that date.

As a teacher you were <u>not allowed</u> to pay into Social Security or Medicare. This is what happened to teachers who started teaching in 1967 and perhaps before. Until recently active teachers did not have the option of paying into Medicare. Consequently, about 10,000 retired teachers do not get Medicare Part A. STRS retirees fund 95 % of their health care and yet the fund is running dry. We are already unable to afford healthcare. What will it be like in the future? It will be a crisis for Ohio's taxpayers if nearly 170,000 older retirees are added to the state's Medicaid and Welfare rolls.

Teachers fund their own retirements. Ohio teachers' pension system was designed to act instead of Social Security to provide a decent retirement. The media loves to quote the salaries of large urban school districts like many in Franklin County. What they don't tell you is that about half of the teaching force works in rural districts and are paid far less. In many districts in southern

Ohio, after a 35 year career a teacher is lucky to earn $40,000. Currently, 37,000 30-year retirees have pensions of $30,000 or less, and 62,000 retirees receive a pension less than $39,000. An STRS (pre-Medicare aged) retiree couple pays over $1300.00 a month healthcare premiums for an 80/20 PPO. If that same couple (retiree and spouse) had paid into OPERS (instead of STRS) would only pay $80 per month for the same coverage.

As a former government teacher I feel that STRS needs a "checks and balances system" and the legislative branch of the Ohio government needs to be a branch of our "checks and balances system" for STRS. The legislators are now aware there are problems with the STRS Retirement System and they need to be watchdogs. They need to be there to make new legislation to make the system solvent; but also responsible to the teachers for vested rights they are entitled to receive. What is the emergency to give total control to the STRS Administration? Please take a look at when the problems began to occur. In 1998-2000 STRS went to the legislators to ask to have all the parts of the ORC relating to STRS repealed. At this time the legislators were not aware of the problems at STRS. Now that they are! The legislators need to keep a watchful eye for at least 5 years on the system and be ready to question legislation requested and the operation of the system.

STRS CONTROL

Legislators need to be the watchdogs for the teachers who are voting constituents.

88% - 35 YEAR EFFECT ON HEALTHCARE

The legislators should also be aware of another problem at STRS: the active teachers have 5 board representatives on the board while the retirees only have 2. This inequity has allowed the current 88.5% for 35 years service payout that no other Ohio public pension system offers. The most any other state pension offers for 35 years of service is 77%. These systems couldn't afford 88% then and they certainly (like STRS) can't afford it now. It must be stopped immediately! This elevated benefit has caused STRS's dedication of the employer's contribution directed to health insurance to drop to a meager 1% while OPERS employers pay into the OPERS health fund at four times this amount (4%). Does STRS have a stop gap insurance policy when claims are higher than normal?

COLA

Maintain the 3% COLA for present retirees. Taking away our COLA for a year, then dropping it to 2% from 3% will hurt many retirees, who have already been hurt by increases in health care premiums and cutbacks in benefits. Our healthcare costs are increasing every year more than 3% and our food, clothing, housing, and utilities are making retirees go deeper into debt from which they will never recover.

EMPLOYER CONTRIBUTIONS

They need to be increased as of the 2012 school year. This 14% contribution has remained the same for many years as far back as 1984. Every cost has increased for school systems and this needs to be increased immediately. For years school systems have benefited by receiving interest on the money they should have been contributing. Employer contributions need to be increased by 3 to 4% to 17 or 18%.

BENCHMARK

Maintain 8% or higher. Use outside investment brokers as other retirement systems do. STRS was started to oversee pensions of teachers; but it has become a company with no products that provides great benefits to employees. Better benefits than any teachers have had and better than any of the other retirement systems. Teachers receive the leftovers. It will allow more money for the investment staff and less to the teachers. Compare and contrast STRS investment staff salary and bonuses with OPERS. Is the OPERS investment staff making $500,000.00 per year, + eligibility for 90% bonus?

FORENSIC AUDIT

Why wasn't this done? One was requested when Governor Taft was in office (but Governor Taft disallowed it).

This does not just affect me, but thousands of teachers. We have served the children and our communities all our lives and the Senators want to toss us to the curb, destined to seek social services, some homeless, and seeking welfare and food stamps. Is this the message you, the Representatives, want to send to the best students who are thinking of becoming teachers?

Sincerely,

Judi Peaspanen

Judi Peaspanen
jjjml@yahoo.com

Witness Information Form

Please Complete the Witness Information Form Before Testifying

Date: 9-5-12

Name: Mike Nehf

Organization (If Applicable): STRS Ohio

Position/title: Ex. Director

Address: 275 E Broad St

City: Columbus State: OH Zip: 43215

Telephone: 614-227-4001

Email: Nehfm@STRSOH.org

Are You Representing: Yourself ____ Organization ✓

Do You Wish to Testify On:

- Legislation (bill number): SB 342
- Specific issue: ____
- Subject matter: ____

Are You Testifying as a:

- Proponent: ✓
- Opponent: ____
- Interested Party: ____

Do you have a written statement, visual aids, or other material to distribute?

Yes ✓ No ____

(If yes, please provide copies to the Chairman or Committee Clerk)

How much time will your testimony require? 5-10 mins

- *Committee Chair may limit testimony in the interest of time*

House Health and Aging Committee
Michael J. Nehf, Executive Director
State Teachers Retirement System of Ohio
September 5, 2012

Chairman Wachtmann, Ranking Member Fende and members of the House Health and Aging Committee, I am Michael Nehf, executive director of the State Teachers Retirement System of Ohio. Thank you for the opportunity today to provide you with details about STRS Ohio's pension reform plan. On behalf of our Retirement Board, staff and the 470,000 members of STRS Ohio, I extend our appreciation for the leadership role you are taking in bringing our board-approved plan to fruition.

STRS Ohio was established in 1920 — we have been providing retirement benefits since before the formation of Social Security. STRS Ohio first addressed pension reform in 2009, submitting a board-approved plan in September of that year. Since that initial plan was submitted, the State Teachers Retirement Board and staff have continued to work with the Ohio Legislature and our membership to refine our recommendations and to gain consensus from our stakeholders. We submitted amended proposals in October 2010 and January 2011 in response to constituent and Statehouse input. The pension plan changes in the proposal represent the first time in STRS Ohio's history that benefit reductions are being sought. The decision to change benefits was difficult, but necessary to preserve the pension fund, and for the plan to meet its funding obligations. Without changes, STRS Ohio will eventually be unable to pay pensions. The Retirement Board's action was taken to uphold its fiduciary duty to the members and retirees of our system.

STRS Ohio staff members as well as the Retirement Board regard their fiduciary duty with prime importance. With this in mind, the board took a series of additional steps in the past year that were vital in creating a clear picture of the system's financial condition. The board requested an asset-liability study and an actuarial experience review of the economic and demographic assumptions used to calculate pension liabilities. Based on this review and the recommendation of PricewaterhouseCoopers, the board approved changes to several of its actuarial assumptions, including lowering its assumed investment rate of return to 7.75% from 8%. Even though the board's investment consultant said it could expect a long-term return of 8% or higher based on its asset mix, the board approved the change to a more conservative return assumption. STRS Ohio is also changing its mortality tables to recognize that our members are living longer and therefore, the system is paying benefits longer.

These revised actuarial assumptions, along with applying the data from the system's most recent actuarial valuation, had a negative net impact on pension funding. STRS Ohio also heard from constituents and legislators that the reform plan should have a smoother transition to new retirement eligibility rules for members who are nearing retirement. Factoring this into STRS Ohio's revised plan further extended the funding period.

The plan that I am presenting to you today was passed unanimously by the Retirement Board on April 19. The plan is also supported by the Healthcare and Pension Advocates for STRS — a coalition that is comprised of groups representing more than 470,000 members and retirees as well as employers. This group of stakeholder advocates has worked closely with the Retirement

Board since 2004 and has reached consensus on these funding solutions. Several of these organizations submitted proponent testimony to the House Health and Aging Subcommittee on Retirement and Pensions — including the Ohio Education Association, the Ohio Retired Teachers Association, the Inter-University Council of Ohio and the Buckeye Association of School Administrators. The plan calls for no additional employer contributions, maintains a 1% employer contribution to STRS Ohio's health care fund and saves more than $11.6 billion in accrued liabilities.

The plan increases age and service requirements for retirement; calculates pensions on a lower, fixed formula; increases the period for determining final average salary; increases member contributions to the system; reduces the cost-of-living adjustment (COLA); defers the COLA for future retirees; and calls for no COLA to be added in fiscal year 2014.

Recently, we asked for two amendments to the Substitute Senate Bill 342 that have constituent support and that do not materially impact the key provisions of the bill that I just touched on. The amendments relate to two technical corrections and would allow for a 12-month delay in the effective date that was originally proposed for those items.

Before concluding my prepared remarks, I would like to spend a moment on the STRS Ohio Health Care Program. I am confident that you share the Retirement Board's belief that a viable retirement is difficult to achieve if health care coverage is unavailable or financially prohibitive. The most recent valuation of STRS Ohio's health care fund showed a balance of $2.97 billion. The life of the fund extends to 2039 — an increase of about 15 years from last year's valuation. Our pension reform plan maintains a 1% employer contribution to the health care fund and allows the Retirement Board to continue working on a long-term strategic health care plan.

Mr. Chairman, members of the committee, in addition to our work with the Healthcare and Pension Advocates, we are continuing to educate STRS Ohio's constituents about the changes that the board approved this spring and we are asking for their continued support. STRS Ohio has used its website, newsletters and email news service to provide timely updates to the membership. Board and staff members also travel throughout the state to meet face-to-face with members to share details of the board's proposed plan. We know that you may hear from individual constituents who are unhappy about the Retirement Board's proposed changes, but without changes, the time will come when STRS Ohio will be unable to pay pensions. And as I noted earlier, the proposed changes have the broad support of the Healthcare and Pension Advocates for STRS.

In July, the Ohio Retirement Study Council received the results of an independent study on pension reform from Pension Trustee Advisors. STRS Ohio was pleased to see that the study supports the continuation of Ohio's defined benefit plans and found that the systems' reform plans will put them in a "much more solid financial position than under current law." Regarding STRS Ohio's reforms, the report stated, "Although the proposed 30-year plan does not quite satisfy the objectives of fully funding the unfunded actuarial liability over no longer than 30 years initially, health care benefits are expected to remain solvent indefinitely and the retirement system is projected to meet the 30-year requirement by 2016 and be 100% funded by 2041." It is clear that the Retirement Board's plan fully complies with Ohio law by showing a path to reach the 30-year funding goal. It is also noteworthy that the report encourages a mechanism to adjust for future actuarial experience — an objective that would be met by our intent to give the board authority to make modifications to plan design in the future, if necessary. This proposal for additional board authority also has the support of our constituent groups.

Again, on behalf of the Retirement Board, staff and STRS Ohio members, I want to thank you for your willingness to preserve the pensions that help provide financial security for retired teachers and continue the steady flow of revenue into Ohio's 88 counties. You are maintaining a successful public policy dating back to 1920 and supporting continued investment in the state's future. If we can assist you in answering questions from your constituents, please let us know. Terri Bierdeman and Marla Bump are both available to assist you by answering questions and providing data.

I have provided each of you with a handout that details our proposed changes. We have been sharing this information with our members in meetings around the state and have it available on our website. To be respectful of your time this afternoon, rather than review this in detail, I would be happy to respond to any questions you may have related to our plan benefits.

aaup OHIO Ohio Conference of the American Association of University Professors
137 East State Street, Columbus, OH 43215 · 614-545-6349, ext. 6349

Written Testimony of Sara Kilpatrick, Executive Director
Ohio Conference of the American Association of University Professors
Submitted to the Senate Insurance, Commerce & Labor Committee
Senator Kevin Bacon, Chair

May 9, 2012

Chairman Bacon, Ranking Member Brown, and distinguished members of the Insurance, Commerce and Labor Committee: my name is Sara Kilpatrick, and I am the Executive Director of the Ohio Conference of the American Association of University Professors (AAUP). The Ohio Conference AAUP represents nearly 4,500 college and university professors at both public and private institutions of higher education across the State of Ohio.

Over 3,000 of our members are enrolled in the State Teachers Retirement System's (STRS) defined benefit pension plan. The purpose of my testimony is to offer my organization's support of the latest STRS reform plan.

The new STRS reform plan works to achieve a 30-year funding period without additional employer contributions. This is no small accomplishment. Our support of this plan demonstrates our members' willingness to sacrifice in order to preserve the defined benefit option and help ensure long-term sustainability of STRS.

The Ohio Conference AAUP is a member of the Healthcare and Pension Advocates (HPA) coalition; and through the coalition, we have worked collaboratively with the other stakeholder groups and STRS to come to a consensus around the plan that STRS has presented to you. We fully support the elements of the letter that HPA submitted to President Niehaus and Ohio Retirement Study Council Chair Faber dated April 20, 2012, which I have included as an addendum.

We respectfully ask that this committee act swiftly in passing reform to improve the funding status of the pension system.

Thank you for your time and consideration of my testimony and this important legislation.

Healthcare & Pension Advocates for STRS

April 20, 2012

The Honorable Thomas E. Niehaus,
Ohio Senate President
Statehouse
1 Capital Square, Second Floor
Columbus, Ohio 43215

The Honorable Keith Faber, Chair
The Ohio Retirement Study Council
Senate Building
1 Capital Square, First Floor
Columbus, Ohio 43215

Dear: President Niehaus and Chairman Faber:

The Healthcare & Pension Advocates for STRS (HPA) very much appreciate your leadership in seeking effective pension reform legislation that will place the State Teachers Retirement System (STRS) on a path to long-term sustainability. Your interest in seeking constituent support for the funding plan on which legislation is based, indicates that you recognize the critical part that a strong pension system plays in the wellbeing of Ohio's active and retired educators, and by extension our public education system and Ohio's economy.

HPA is a diverse coalition made up of professional employer, employee and retiree organizations representing STRS's stakeholders. We came together as a coalition in 2002 and since that time we have established and enjoy a collaborative and productive working relationship with each other, the STRS staff, and the STRS Board. Throughout our history we have operated on a consensus-based model, endorsing positions only when we have achieved the broadest possible support of our member organizations. We have found that this approach best serves our members and STRS in that it promotes participation and furthers understanding within our diverse community.

It is through this consensus-based approach that HPA has been able to support a funding plan that was adopted by the STRS Board on Thursday, April 19, 2012. Key features of the Board-approved plan include:

- Smoothing the transition years in retirement eligibility changes to avoid sharp increases in the years needed to retire for active educators currently approaching retirement.
- Maintaining a 1% contribution to the healthcare benefit.
- Reducing the cost of living adjustment (COLA) to 2% for current and future retirees, deferring the COLA by five years for future retirees, and suspending the COLA for one year for current retirees.
- Reducing the benefit formula to 2.2% for all years of service.
- Increasing the final average salary (FAS) calculation to the five highest years of earnings.
- Increasing employee contributions to 14%, phased-in at 1% per year.

Together, the benefit changes for both actives and retirees reduce the STRS unfunded liability by more than $13Billion and helps pay down the remaining unfunded liabilities by asking active teachers to contribute an additional 4% of their pay. Another key aspect of our constituent-supported plan is giving the STRS Board, as the System's fiduciaries, the tools to deal with fluctuations in the System's funded status and keep the pension plan on the right course.

In closing, the HPA-supported and STRS Board-approved funding plan is the result of extensive deliberations, interactions with our constituents, consultation with the System's staff and an exhaustive review of funding and actuarial data. We strongly believe that the provisions of this plan address issues of critical importance to our members and achieve much-needed improvement in the funding status of the pension fund. HPA urges your support of this plan and speedy passage of legislation to implement its provisions.

Sincerely,

Bill Leibensperger

William W. Leibensperger, Co-Chair
Healthcare & Pension Advocates for STRS

Colleen A. O'Brien

Colleen A. O'Brien, Co-Chair
Healthcare & Pension Advocates for STRS

cc. Michael Nehf, STRS Executive Director
HPA Member Organizations

MAY 8, 2012

COMMITTEE ON PUBLIC PENSION REFORM

SENATOR BACON, CHAIRMAN

WRITTEN OPPONENT TESTIMONY

MAY 8, 2012

SENATOR BACON, CHAIRMAN

COMMITTEE ON PUBLIC PENSION REFORM

DEAR CHAIRMAN BACON,

PLEASE SUBMIT THIS LETTER AS WRITTEN OPPONENT TESTIMONY IN OPPOSITION TO INTRODUCING LEGISLATION OF GOVERNMENT AND PUBLIC EMPLOYEE PENSION REFORM PRIOR TO RECEIVING THE RESULTS OF THE COMPREHENSIVE STUDY REPORT THAT WAS REQUESTED BY THE LEGISLATORS PREVIOUSLY.

IF THE INFORMATION BEING PROPOSED BY EACH PENSION PLAN DOES NOT SEPARATE BENEFIT CHANGES FOR EMPLOYEES HIRED BEFORE 4-1-86 TO COMPLY WITH THE SECTION 218 AGREEMENT BETWEEN THE STATE OF OHIO AND THE SOCIAL SECURITY ADMINISTRATION, THE PROPOSALS MAY BE ILLEGAL.

IRREVOCABLE MEANS: IMPOSSIBLE TO RETRACT OR REVOKE, NOT TO BE REVOKED OR RECALLED OR ALTERED. TO SUBMIT LEGISLATION TO ALTER JOBS OF EMPLOYEES COVERED UNDER THE SECTION 218 AGREEMENT MAY BE ILLEGAL LEGISLATION. PLEASE CHECK WITH A LAWYER AND/OR AN ACCOUNTANT REGARDING THIS INFORMATION. THIS IS A COVERED GROUP OF INDIVIDUALS THAT DO NOT PAY FICA TAXES THAT ARE COVERED UNDER SECTION 218.

FOR A SENATOR TO CONSIDER PROPOSING OR MAKING A DECISION ON LEGISLATION WITHOUT HAVING THE FACTS OF A PENSION STUDY AND NOT COMPLYING WITH FEDERAL LAWS IS NOT IN THE BEST INTEREST OF THE MEMBERS OF ANY OF THE PENSION PLANS.

I KNOW PENSION PLANS ARE GIVING SCARE TACTICS ADVICE TO ITS MEMBERS TO CONTACT LEGISLATORS BY MASS NUMBERS OR THEIR PENSION WILL BE AFFECTED WORSE. PLEASE HAVE ENOUGH WISDOM ABOUT YOURSELVES TO GET THE FACTS AND MAKE YOUR DECISION BASED ON FACTS FROM THE REPORTS AND INVESTIGATIONS BEING COMPLETED INSTEAD OF HEARSAY ADVISE AS THE MEMBERS ARE BEING GIVEN BY THE PENSION PLANS.

THIS IS BEING FAXED TO YOU TO BE RECEIVED IN TIME FOR THE HEARINGS SCHEDULED. PLEASE MAKE AS MANY COPIES OF THIS LETTER AS NEEDED TO DISTRIBUTE AS WRITTEN TESTIMONY IN OPPOSITION OF THE PENSION REFORM BILL BEING PROPOSED AT THIS TIME.

THANK YOU VERY MUCH.

SINCERELY,

Velvet Harmon

VELVET HARMON

12939 STATE ROUTE 141

KITTS HILL, OH 45645

PHONE (740) 442-5005

OPERS MEMBER

ATTACHMENT:

SOCIAL SECURITY ONLINE INFO ON SECTION 218 AGREEMENTS

State and Local Government Employers

Social Security Online

SLGE Home

Section 218 Agreements

What is a Section 218 Agreement?

A Section 218 Agreement is a voluntary agreement between the State and the Social Security Administration (SSA) to provide Social Security and Medicare Hospital Insurance (HI) or Medicare HI-only coverage for State and local government employees. These agreements are called "Section 218 Agreements" because they are authorized by Section 218 of the Social Security Act. Section 218 Agreements are irrevocable.

Who has a Section 218 Agreement?

All States, including the 50 states, Puerto Rico, the Virgin Islands, and approximately 60 interstate instrumentalities have a Section 218 Agreement with SSA. These agreements allow the States, if they desire, to provide Social Security and Medicare Hospital Insurance (HI) or Medicare HI-only coverage for public employees.

How are employees covered under a Section 218 Agreement?

Section 218 Agreements cover positions not individuals. If the position is covered for Social Security and Medicare under a Section 218 Agreement, then any employee filling that position is subject to Social Security and Medicare taxes. Employees covered under a Section 218 Agreement have the same coverage and benefit rights as employees in the private sector.

Public employees are brought under a Section 218 Agreement in groups known as coverage groups. There are two basic coverage groups: absolute coverage groups and retirement system coverage groups. An absolute coverage group is composed of employees whose positions are not covered under a public retirement system. A retirement system coverage group is composed of employees whose positions are covered under a public retirement system.

A public retirement system may be covered under a Section 218 Agreement only after a referendum is held. All States are authorized to use the majority vote referendum process. If a majority of all the eligible members vote in favor of coverage, all current and future employees in positions under the retirement system will be covered.

In addition to the majority vote referendum procedure, certain States and all interstate instrumentalities are authorized to divide a retirement system based on whether the employees in positions under the retirement system want coverage. Under the divided vote referendum, only those employees who vote "yes" and all future employees will be covered. Members who vote "no" are not covered as long as they maintain continuous employment in a position within the same public retirement system. Although the referendum itself is a State matter, Section 218 of the Act requires that certain conditions be met.

Can a Section 218 Agreement exclude certain employees?

Under the Act, certain employee services are mandatorily excluded from Social Security coverage under a Section 218 Agreement. In addition, certain services and positions may, if requested by the State, be excluded from Social Security coverage under the State's Section 218 Agreement (optional exclusions). The services that a State may optionally exclude are limited to those listed as optional exclusions in Section 218 of the Act.

Who is the State Social Security Administrator?

Each State has a designated official, the State Social Security Administrator, who is responsible for administering the State's Section 218 Agreement and supervising the referendum process. The State Administrator provides public employers information and advice about Social Security and Medicare coverage for State and local government employees. Contact the State Administrator for your State.

References

- Section 218 of the Social Security Act
- SSA Regulations 20 CFR 404.1200

Medicare Coverage

- Services performed by individuals hired to be relieved from unemployment.
- Services performed in a hospital, home or other institution by a patient or inmate thereof .
- Services performed by an employee on a temporary basis in case of fire, storm, snow, earthquake, flood or other similar emergency.
- Services performed by non-resident aliens with F-1, J-1, M-1 and Q-1 visas.
- Services in positions compensated solely by fees that are subject to Self-Employment Contributions Act (unless covered under Section 218 Agreement).
- Services performed by a student enrolled and regularly attending classes at the school, college or university where they are working (unless covered under Section 218 Agreement).
- Services performed by an election worker or official whose pay in a calendar year is less than the amount mandated by law (unless covered under Section 218 Agreement).
- Services that would be excluded if performed for a private employer because it is not work defined as employment under Section 210(a) of the Social Security Act (unless Section 218 Agreement covers certain agricultural services).

Medicare Coverage under Section 218 Agreement

If a State or local government employer wants to provide Medicare coverage for employees who were hired before April 1, 1986 and are members of a public retirement system, the employer should contact their State Social Security Administrator.

References:

- Section 210(p) of the Social Security Act
- Section 3121(u) of the Internal Revenue Code

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Last reviewed or modified Wednesday Feb 09, 2011

INSURANCE, COMMERCE AND LABOR COMMITTEE

WITNESS FORM

Today's Date: MAY 9, 2012

Name: THOMAS ASH

Address: 8050 NORTH HIGH STREET
COLUMBUS, OH 43235

Telephone: (614) 846-4080

Representing: BUCKEYE ASSOCIATION OF SCHOOL ADMINISTRATORS

Testifying on bill number: SB 342

Testifying as: X Proponent

___ Opponent

___ Interested Party

Are you a registered lobbyist? X YES ___ NO

Are you submitting written testimony? X YES ___ NO

Comments: ______________________________

Chair Bacon, Vice-Chair Faber, Ranking Minority Member Brown, and members of the Senate Insurance, Commerce and Labor Committee, thank you for the opportunity to testify in support of Senate Bill 342, which addresses the long term sustainability of the State Teachers Retirement System (STRS). My name is Thomas Ash, and I am the Director of Governmental Relations for the Buckeye Association of School Administrators, which represents superintendents, other central office administrators, and some college faculty members in educational administration.

First, our organization commends the Ohio Senate's concern for the need to address the pension reforms necessary to preserve the retirement not only of current retirees but also of those professional educators who look forward to their retirement in the future. This concern not only recognizes the challenges faced by public retirement systems in Ohio but also demonstrates political courage since any reforms will of necessity require some reduction in benefits and an increase in active member contributions.

Second, BASA has a history in collaborating with STRS. About eight years ago, our association joined the coalition which is now the STRS Healthcare and Pension Advocates (HPA). At that time, HPA was addressing the challenges facing the system's health insurance fund, but the scope of that concern widened to include pensions when the funding period far exceeded the statutory limit of 30 years. We join with HPA in supporting this legislation.

In addition, BASA has a standing committee which meets four times each year with STRS staff to explore issues and exchange information.

We support: the phasing in of the increased years of service; the suspension of the cost of living allowance in FY 2014 and the reduction of the COLA to 2%; the five-year delay in receiving the COLA after July 1, 2013; the calculation of the final average salary based on five rather than three years; the increase in member contributions by 1% each year until that contribution reaches 14%; and the reduction in the percentage for each year of service to 2.2% per year. We also support no increase in the employer contribution.

We encourage flexibility for the board governing STRS. Since those members already have the fiduciary responsibility for the soundness of the system, it is appropriate to give the board the authority to make necessary benefit changes through administrative rules and oversight by the Ohio Retirement Study Council in order to keep the system within the thirty-year funding period.

Our membership is perhaps unique among organizations which will testify before this committee. Not only are our members active members of STRS, but also they represent the employers. Ultimately, they are responsible for collective bargaining with their employees.

Our members, along with treasurers/chief financial officers, are ultimately responsible for the budgets of their employing school districts. In essence, they are affected not only by retirement costs but also by the effect these changes have on their own futures.

Moreover, our members tend to be older as they have ascended to their current leadership roles after service as teachers and building level administrators. In addition, according to a survey from last fall, each of our members has served in his or her current position for about 6.5 years. This suggests that the majority of our members are probably within ten years of the current minimum thirty-year retirement eligibility. They understand that will mean that they will work longer; in the case of our average member, it will mean four additional years of service in order to receive an unreduced benefit.

However, they also understand the cost of doing nothing. The long term preservation of the system overshadows the sacrifices that must be made now.

Chair Bacon, BASA supports the changes as presented in Senate Bill 342, and we encourage the committee to favorably report the bill. Thank you for this opportunity to address this critical piece of legislation, and I would be happy to attempt to respond to any questions.

INSURANCE, COMMERCE AND LABOR COMMITTEE

WITNESS FORM

Today's Date: 5/9/12

Name: Jay Smith / Barb Shaner

Address: OSBA / OASBO
8050 N. High St, Col, OH

Telephone: 614-540-4000

Representing: OSBA / OASBO

Testifying on bill number: SB 341 SB 342

Testifying as: X Proponent
___ Opponent
___ Interested Party

Are you a registered lobbyist? X YES ___ NO

Are you submitting written testimony? X YES ___ NO

Comments: ___

oasbo est. 1936 75

SERVING OHIO PUBLIC SCHOOLS OSBA SINCE 1955

Proponent Testimony on SERS (SB 341) and STRS (SB342) Pension Proposals
Senate Insurance, Commerce and Labor Committee
May 9, 2012

Good afternoon, Chairman Bacon, members of the Senate Insurance, Commerce and Labor Committee. Thank you for the opportunity to testify on Senate Bills (SB) 341 and 342. My name is Jay Smith and I represent the Ohio School Boards Association (OSBA). Joining me for the testimony and to answer questions from the committee is Barbara Shaner, representing the Ohio Association of School Business Officials (OASBO).

Our organizations represent the public school boards of education from across the state and the district treasurers/CFOs, business managers, and other school business officials who manage the business operations of school districts. OASBO members view themselves as employer representatives, but they also contribute to the School Employee Retirement System (SERS) for their retirement benefits. Some board members may also contribute to either the SERS or the State Teachers Retirement System (STRS) of Ohio, depending on their eligibility. The members of both our organizations are very interested in the provisions in SB 341 and SB 342. The following testimony was prepared on behalf of OSBA and OASBO members as developed by our respective legislative platform processes.

First, we begin by thanking Senate President Niehaus and Minority Leader Kearney for bringing forward pension reform legislation. A strong public pension system is an important part of the benefit package that school districts can offer employees, allowing for the recruitment and retention of quality staff. We understand the need for changes that will make the systems sustainable for the long term and we agree that the current recommendations from STRS and SERS will help to secure the viability of the state's public systems for current and future retirees.

OSBA and OASBO are particularly pleased that recommendations from the two school-related systems do not include an increase in employer contributions. When proposals for employer increases have surfaced in the past, we have been opposed and instead urged the systems to make changes that would allow them to manage benefits within their means. We believe that an employer contribution of 14% of payroll costs is a generous benefit. Changes in retirement benefits offered by the systems must recognize changes in the demographics of retirement system members as well as be sensitive to today's economy.

Specifically, we support the following provisions as proposed by SERS and STRS:

SERS (SB 341) (retirement benefits for treasurers, business managers and support staff such as custodians, secretaries and cafeteria workers):
—Increase the normal retirement age from 65 to 67 with ten years of service (YOS) and from 55 to 57 with 30 YOS, effective August, 2017.
—Retain early retirement at age 62 with 10 YOS and age 60 with 25 YOS, with actuarially-reduced benefits.
—No changes proposed to current COLA benefit of 3% annually. It should be noted that in 2008, SB 148 increased age and service retirement eligibility for new hires within the SERS system. This step has helped the system maintain a sound system while staying within the 30-year funding requirement.
STRS (SB 342) (retirement benefits for licensed teaching staff and administrators):
—Phase-in an increase in YOS, beginning at 31 YOS August, 2015, and phasing up to a minimum age of 60 with 35 YOS by August 1, 2026.
—Increase YOS with the changes phasing in over an eight year period with the first phase for early retirement with actuarially-reduced benefit, age 55 with 25 YOS in 2015, moving to any age with 30 YOS in 2023.
—Suspend the cost-of-living adjustment (COLA) for 1 year for all retirees during the 2014 fiscal year. Thereafter, resume COLAs at 2% per year (the current COLA is at 3%).
—Members retiring after July 1, 2013 would also receive a COLA, but not until after their 5th anniversary of retirement.
—Final average salary (FAS) would be based on the five highest years of earnings (instead of three), starting in 2015.
—Starting in 2015, members' pensions would accrue 2.2% of their salaries for each YOS with a hold harmless protection for those close to retirement when the changes occur. (The current 35-year enhanced benefit formula of 88.5% of FAS is eliminated). Teachers retiring with 35 YOS at age 60 or older as of August 2015 or later would receive 77% of their FAS.
—Increase in member contributions from 10% to 14%, phased in at 1% per year beginning July 1, 2013, through July 1, 2016.

Finally, we recognize the scope of the current funding difficulties for each of the systems is different because of their own particular membership demographics and other factors. We believe the differences in the recommendations from the two systems (SERS & STRS) reflect the needs of the systems respectively. Our organizations have worked with the two systems as the process has moved along to be sure that the interests of the employers, our members, are reflected in the recommendations. We support the two sets of recommendations as appropriate to their own system needs. We thank the SERS and STRS representatives for including us in the discussions about these important changes.

Thank you for the opportunity to speak to you this afternoon. We will be happy to address your questions.

INSURANCE, COMMERCE AND LABOR COMMITTEE

WITNESS FORM

Today's Date: 5-9-12

Name: Bill Leibensperger

Address: 225 E. Broad St.
Columbus, OH 43215

Telephone: 614-227-3088

Representing: The Ohio Education Association

Testifying on bill number: HB 341, 342 and 343

Testifying as: X Proponent

___ Opponent

___ Interested Party

Are you a registered lobbyist? ___ YES X NO

Are you submitting written testimony? X YES ___ NO

Comments: May be joined by OEA Staff - Robert Davis - to answer questions.

OEA
OHIO EDUCATION ASSOCIATION

Patricia Frost-Brooks, President
William Leibensperger, Vice President
Jim Timlin, Secretary-Treasurer
Larry E. Wicks, Executive Director

The OEA will lead the way for continuous improvement of public education while advocating for members and the learners they serve.

Proponent Testimony on Pension Reform Legislation: Senate Bills 341, 342, and 343
Senate Insurance Commerce and Labor Committee
Wednesday, May 9, 2012

Chairman Bacon, Vice Chair Faber, Ranking Member Brown and members of the Committee,

My name is William Leibensperger, Vice President of the Ohio Education Association. On behalf of our 124,000 members, thank you for the opportunity to offer testimony on pension reform legislation. The issue before this committee is of great importance to every one of our members. Those who dedicate their careers to serving Ohio's students need and deserve reliable retirement benefits. For Ohio's public employees, the pension and health care benefits provided by the state retirement systems represent their financial security in retirement.

OEA has members in three of the state retirement systems: STRS, SERS and OPERS. We steadfastly support the continuation of defined benefit pension plans for Ohio's public employees. We also recognize the need for changes to the pension systems going forward in order to assure that those plans are stable, reliable and continue to offer access to meaningful health care coverage.

The massive and rapid economic downturn hit each of the retirement systems hard and put the long-term solvency of the pension systems in jeopardy. What happened on Wall Street and in the world economy was not the fault of our members, the pension systems, or anyone on this committee. While the economy has improved, we recognize that investment returns alone are not going to solve this problem. All of this has required difficult decisions.

For the past three years, OEA has been working with its members, the retirement systems and other stakeholder groups looking at potential solutions. Some of the principles that have guided our work are: a realistic view of market recovery; sharing responsibility equitably among stakeholder groups; and phasing in changes to have less impact on those at the latter stages of their career.

OEA supports the plans adopted by the retirement boards of STRS, SERS and OPERS reflected in the legislation before this committee. These plans are responsive to the economic and demographic situations each system. I will briefly discuss the major components of each system's plan:

STRS (SB 342)

To be clear, the funding picture for STRS is worse than the other two systems. The funding period (the amount of time needed to pay off the unfunded liability) is infinite. This means, left unchanged, STRS would eventually be unable to meet its obligations to current and future retirees. This must be addressed. In order to restore STRS to sustainability, liabilities must be reduced, their growth slowed and the unfunded liabilities must be paid down at a faster rate. Put simply, this means reduced benefits and increased contributions for our members in order to better ensure a reliable pension in retirement.

OEA supports the most recent plan by the STRS Board to make changes to benefits and contribution rates in order to establish long-term solvency. This plan, passed unanimously by the STRS Board in April 2012, made a critical improvement to proposed changes in retirement eligibility from the prior plan which we were unable to support. Addressing the issue of an "eligibility cliff" was of great importance to our members. We also realize that the longer it takes to enact change the more costly the changes needed are likely to be. For these reasons, we believe the time to act is now.

Eligibility: Retirement with full benefits at age 65 with at least 5 years of service is maintained. Otherwise, beginning in 2015, SB 342 gradually increases the years of service needed to retire with full benefits from 30 years to 35 years. After 2026, a member would need to have 35 years of service and be at least 60 years old for full benefits.

For early retirements, members could retire at age 60 with 5 years of service or with 30 years of service at any age. However, members who choose to retire early would have their benefits actuarially reduced.

Contributions: The Board-adopted plan calls for gradually increasing employee contributions from 10% to 14% of pay. Consistent with the conversations of the Board, we support a gradual increase in the cap on employee contributions rather a rate fixed in statute.

Cost-of-Living Allowance (COLA): The bill would lower the COLA rate for current retirees from 3% to 2% and have a freeze on increases for FY 2014. For future retirees (begining August 2013) the COLA rate would also be 2% but the first increase would come after 60 months of retirement.

Benefit Formula and Final Average Salary (FAS): Beginning in 2015 the formula would be 2.2% for each year of service and the final average salary would be calculated on five years of salary rather than three. Those who are eligible to retire by July 1, 2015 but elect to continue working would receive no less of a base benefit than current law allows.

SERS (SB 341)

As I mentioned earlier, OEA supports the changes proposed by the SERS Board reflected in SB 341. The bill calls for changes in retirement eligibility that would generally apply to those who currently have fewer than 20 years of service. The SERS plan does not call for changes in contribution rates, COLA, formula or final average salary. The current fiscal condition of SERS does not warrant such changes. This is important due to the low wages of many educational support personnel and the low monthly pensions of the average SERS retiree.

Retirement Eligibility: Beginning August 1 2017, retirement eligibility with full benefits would be 10 years of service at age 67 or 30 years of service at age 57. A member could retire early with 10 years of service at age 62 or 25 years of service at age 60. Early retirements would be subject to an actuarial reduction of benefits. Members that would have at least 25 years of service by 2017 are grandfathered from these changes.

OPERS (SB 343)

Additionally, OEA supports the changes proposed by the OPERS Board reflected in Senate Bill 343. The changes proposed are designed in order to continue contributions toward a meaningful health care benefit for current and future OPERS retirees. The OPERS plan divides employees into three groups. Those who are within five years of retirement (Group A) or between five and ten years from retirement (Group B) are grandfathered from some of the proposed changes.

Retirement Eligibility: For Group B, eligibility for full benefits increases to 31 years of service and age 52, 32 years of service at any age, or five years of service at age 66. For Group C, eligibility for full benefits increases to 32 years of service at age 55 or five years of service at age 67. For both groups, early retirements result in actuarially reduced benefits. Group A is grandfathered into current eligibility requirements.

Formula and FAS: For Group C only, the formula would be 2.2% for the first 35 years and 2.5% for each year thereafter with FAS calculated on the five highest years of salary (up from 3).

Cost-of-Living Allowance (COLA): For current retirees the COLA would remain 3%. For those retiring after the bill's effective date (Groups A, B and C) the COLA would be the increase in the Consumer Price Index (CPI) capped at 3%.

Mr. Chairman, in closing I would like to recognize that this is a complex and highly emotional issue. We understand that any proposal to reduce benefits will make some of our members (and your constituents) angry. However, we recognize the need for change in order to fix a real problem. Ohio's public retirement systems have served our members and Ohio's taxpayers well. We must act to continue and strengthen these systems for the long haul. To that end, I urge your favorable consideration of SB 341, 342, and 343.

Thank you, Chairman Bacon. Robert Davis from OEA's Governmental Services Department is also here and we'd be happy to respond to questions from the committee.

INSURANCE, COMMERCE AND LABOR COMMITTEE

WITNESS FORM

Today's Date: May 9, 2012

Name: Ann Hanning Ann Hanning

Ohio Retired Teachers Assn. (ORTA)

Address: 8050 N. High St #190

Columbus, OH 43235-6488

Telephone: 614 431-7002

Representing: Ohio Retired Teachers Association

Testifying on bill number: SB 342

Testifying as: ✓ Proponent

___ Opponent

___ Interested Party

Are you a registered lobbyist? ✓ YES ___ NO

Are you submitting written testimony? ✓ YES ___ NO

Comments: ___

ORTA OHIO RETIRED TEACHERS ASSOCIATION

OHIO RETIRED TEACHERS ASSOCIATION FRIENDSHIP SERVICE SINCE 1947

8050 NORTH HIGH STREET, SUITE 190
COLUMBUS, OH 43235-6488

(614) 431-7002
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Proponent Testimony on SB 342
State Teachers Retirement System Proposal
For Pension Solvency
Senate Insurance, Commerce & Labor Committee
May 9, 2012

Ann W Hanning, Executive Director
Ohio Retired Teachers Association

Good afternoon, Chairman Bacon, Vice-Chairman Faber, Ranking Member Brown and members of the Senate Insurance, Commerce & Labor Committee.

I am Ann Hanning, Executive Director of the Ohio Retired Teacher Association (ORTA). We currently have 30,000 members who are stakeholders of STRS. ORTA is a member of the Healthcare & Pension Advocates for STRS.

At its meeting on May 3, the ORTA Board passed a motion supporting the STRS proposed solvency plan (as amended 4/19/12).

No one is extremely happy with all the changes, especially those affecting them. However, most retirees understand STRS' financial situation; and they are accepting and supporting the proposed plan. We know that some things must change and the sooner, the better for all members of the system.

The defined benefit pension plan is very important to most retirees. It is also very important as a stabilizer for the local and state economies. Retirees spend their pension dollars in their communities and in our state – OHIO.

Health care is also important for both current and future retirees. It must continue to be accessible and affordable.

Thank you for the opportunity to address you today. I'll try to answer any questions.

WITNESS INFORMATION FORM

PLEASE COMPLETE THE WITNESS INFORMATION FORM BEFORE TESTIFYING

DATE: 8/8/12

NAME: SENATOR TOM NIEHAUS

ORGANIZATION: OHIO SENATE
(IF APPLICABLE)

POSITION/TITLE: ____________

ADDRESS: ____________

CITY: ____________ STATE: ____________ ZIP: ____________

TELEPHONE: ____________

ARE YOU REPRESENTING: YOURSELF____ ORGANIZATION____

DO YOU WISH TO TESTIFY ON
LEGISLATION (BILL NUMBER): ____________
SPECIFIC ISSUE: ____________
SUBJECT MATTER: ____________

DO YOU FAVOR ____ OR OPPOSE ____ THE ENACTMENT OF LEGISLATION REGARDING THIS ISSUE?

PLEASE GIVE A BRIEF STATEMENT OF THE GROUNDS ON WHICH YOU FAVOR OR OPPOSE SUCH ENACTMENT:

WILL YOU HAVE A WRITTEN STATEMENT, VISUAL AIDS, OR OTHER MATERIAL TO DISTRIBUTE?
YES ✓ NO____
(IF YES, PLEASE PROVIDE COPIES TO THE CHAIRMAN OR SECRETARY)

HOW MUCH TIME WILL YOUR TESTIMONY REQUIRE? ____________

Chairman Schuring, Ranking Member Hagan and members of the Health and Aging Subcommittee on Retirement and Pensions. Thank you for giving me the opportunity to provide sponsor testimony on this package of five pension reform bills:

340 Ohio Police and Fire Pension Fund (OP&F)

341 School Employees Retirement System (SERS)

342 State Teachers Retirement System (STRS)

343 Public Employees Retirement System (PERS) and

345 Highway Patrol Retirement System (HPRS).

Each of these bills represent the end product of extensive efforts by the boards of the state pension plans to address the challenging economic realities of providing retirement income to more than 400,000 retirees, and preserving the interests of another 1.4 million active members and others who have not yet retired.

I appreciate Senate Minority Leader Kearney's willingness to jointly sponsor these bills with me. Pension reform is not a partisan issue.

And Chairman Schuring, I would like to acknowledge and thank you and Representative Wachtmann and Representative Ramos for your service on the Ohio Retirement Study Council and your oversight of such an important benefit for state employees.

It is important to note these bills contain only those changes to current pension law requested by each of the boards of the five plans. These boards are elected by the members of the plan, and are charged with the responsibility of being good stewards of these pension funds.

I am proud that all five bills passed the Senate with overwhelming bipartisan support. Three bills, SB 341, 343 and 345, passed unanimously. SB 340 passed 30-3 and SB 342 passed 31-2. This was further evidence that protecting the retirement incomes and health benefits of public employees is not a partisan issue.

It is no secret that the lingering economic downturn and several years of inaction by the legislature have put additional strain on our pension systems.

These were the primary reasons Leader Kearney and I chose to act on pension reforms earlier this year.

I would also like to thank the five pension systems and their executive directors for helping us get to this point. I know they have been frustrated by our inaction over the last few years. Yet they have managed to continue to serve the hundreds of thousands of retirees who depend on their good work.

The changes contained in these plans are not popular, but they are necessary. I applaud the members of these plans for recognizing the economic necessity of accepting difficult choices in order to preserve their pensions and the opportunity to receive health benefits.

Few things are as personal as the retirement plans for employees. Perhaps that is why members of some plans are not in full agreement with all the changes proposed by the boards who oversee these plans.

I encourage these members to support the changes their boards have recommended. There will be a need for further changes in the future. But we need to pass these reforms now.

When I started having conversations with the directors earlier this year about wanting to move pension reform bills, I made my expectations clear. The plans had to help us by demonstrating clear stakeholder support. The five systems have done that.

Each of the plans addresses their fiduciary responsibilities a little differently. For that reason I will not delve into the details of each plan. I know you have already heard from some of the plans regarding their proposals. I want to stress it is my desire to pass only what the boards have asked us to pass.

I am aware the report commissioned by the Ohio Retirement Study Council and released last month made additional recommendations. I have spoken with Chairman Schuring to assure him I am supportive of further changes each of the boards of directors of the plans believe are necessary to ensure effective management of these retirement systems.

However, I would like to make clear to the committee how important I feel it is to act on the systems' recommendations. With some systems losing upwards of a million of dollars a day for each day we don't act, we simply cannot wait any longer. Many of these recommendations were proposed in 2009 and have languished for the better part of two General Assemblies.

As I pointed out to my Senate colleagues, these changes are more about healthcare reform than pension reform. The two are linked. The longer we wait to act on these reforms, the more we jeopardize the healthcare benefits provided by the boards.

Some would rightfully argue that only the pension benefits are guaranteed, not healthcare benefits. While technically true, it ignores the long history, and I would argue, the implied contract, between retired public employees and their pension system that has allowed the plans to provide healthcare benefits.

While it is true that the General Assembly does not control healthcare benefits, the longer we wait to pass these reforms, the more likely it is that each of the five pension boards will take steps to reduce the healthcare benefits they offer in order to ensure the viability of the pension benefit side of the ledger.

I was recently asked "Why move forward now after not doing anything for years?" That is a fair question and, frankly, I am personally embarrassed that we haven't moved sooner. With your support we can rectify that in the coming weeks.

I will only be in a position to influence this legislation until the end of this year. I want to make sure that before I leave the legislature I have done all I can to preserve the benefits that more than 400,000 retirees have come to expect each month, and to protect the future benefits of the nearly 1.4 million unretired members, both active and inactive.

Chairman Schuring and members of the committee, thank you for providing me with this opportunity to testify. I would be glad to answer any questions that may have for me.

Senator
Eric H. Kearney
Senate Minority Leader
9th District

Health and Aging Subcommittee on Retirement and Pensions

Sponsor Testimony on Pension Legislation
(SB 340 - OP & F; SB 341 – SERS; SB 342 – STRS; SB 343 – PERS and SB 345 HPRS)
By
Senator Eric H. Kearney
August 8, 2012

Chairman Schuring, Ranking Member Hagan and the members of the Health and Aging Subcommittee on Retirement and Pensions, thank you for opportunity to present sponsor testimony on Senate Bills 340, 341, 342, 343 and 345.

The legislation we are introducing here today will strengthen our pension system and maintain its status as one of the best in the nation. And we will accomplish that goal without any additional tax money.

All long-term investments require periodic adjustments. The stock market goes up and down and the number of retirees change. Our pension plans must adjust to reflect these changes.

My mother is a retired school teacher. And like many other retired Ohioans, she lives on a fixed income and depends on her retirement benefits to pay for groceries, utility bills and other necessities of life. These Ohioans are counting on us to make the necessary reforms to preserve their benefits.

Drafting this legislation has been a collaborative effort. I've had numerous conversations with interested parties and with members of my caucus. And based on those conversations, I am comfortable with putting my name on the legislation.

Some of the changes might not be popular with everyone. But, we are doing what needs to be done to protect retirement benefits for nearly two million retirees and future retirees.

Senate Building Room 303 • 1 Capitol Square • Columbus, Ohio 43215
P: (614) 466-5980 • F: (614) 644-1981 • E: SD09@ohiosenate.gov

It is important to point out that Ohio has one of the better managed pension systems in the nation. Historically, Ohio's pension plans have taken a prudent, conservative approach to investments to ensure stable and secure retirements for our public employees.

In fact, the Pew Center for the States has called Ohio a "Solid Performer", which is the organization's highest rating. That rating was handed out in 2010 when our economy was in worse shape than it is now.

Our state pension plans are losing two million dollars a day in savings while they wait for the General Assembly to finally act. Over 1.8 million Ohioans will be impacted by pension legislation. It is time to act now.

I want to thank President Niehaus for tackling this important issue on a bipartisan basis.

It's all too rare when the leaders of opposing parties in the General Assembly jointly sponsor legislation. The fact that it's happening now reflects our strong desire to pass pension legislation this year.

In closing, I would like to thank Chairman Schuring and the committee members for allowing me to offer sponsor testimony on Senate Bills 340, 341, 342,343 and 345. I look forward to working with you throughout the process.

Witness Information Form

Please complete the Witness Information Form before testifying

Date: Aug. 8, 2012

Name: Michael Nehf, Ex. Dir.

Organization: STRS Ohio
(If applicable)

Position/title: Ex. Dir.

Address: 275 E. Broad St.

City: Columbus State: Oh Zip: 43215

Telephone: 227-4001

Are you representing: Yourself____ Organization ✓

Do you wish to testify on
Legislation (bill number): SB 342
Specific issue: ____
Subject matter: ____

Do you favor ✓ or oppose ____ the enactment of legislation regarding this issue?

Please give a brief statement of the grounds on which you favor or oppose such enactment: STRS Ohio supports SB 342 inasmuch as it incorporates the recommendations of the STRS Ohio board to provide long-term financial stability of the system.

Will you have a written statement, visual aids, or other material to distribute?
Yes ✓ No____
(If yes, please provide copies to the chairman or secretary)

How much time will your testimony require? 10 min.

House Health and Aging Subcommittee on Retirement and Pensions
Michael J. Nehf, Executive Director
State Teachers Retirement System of Ohio
August 8, 2012

Chairman Schuring, Ranking Member Hagan and members of the House Health and Aging Subcommittee on Retirement and Pensions, I am Michael Nehf, executive director of the State Teachers Retirement System of Ohio. Thank you for the opportunity today to provide you with details about STRS Ohio's pension reform plan. On behalf of our Retirement Board, staff and the 470,000 members of STRS Ohio, I extend our appreciation for the leadership role you are taking in bringing our board-approved plan to fruition.

STRS Ohio was established in 1920 — we have been providing retirement benefits since before the formation of Social Security. STRS Ohio first addressed pension reform in 2009, submitting a board-approved plan in September of that year. We submitted amended proposals in October 2010 and January 2011 in response to constituent and Statehouse input. The pension plan changes that we have proposed represent the first time in STRS Ohio's history that benefit reductions are being sought. The decision to change benefits was difficult, but necessary to preserve the pension fund, and for the plan to meet its funding obligations. Without changes, STRS Ohio will eventually be unable to pay pensions. The Retirement Board's action was taken to uphold its fiduciary duty to the members and retirees of our system.

STRS Ohio staff members as well as the Retirement Board regard their fiduciary duty with prime importance. With this in mind, the board took a series of additional steps in the past year that were vital in creating a clear picture of the system's financial condition.

First, in August 2011 the board requested its investment consultant, Callan Associates, to conduct an asset-liability study to refine STRS Ohio's investment asset mix going forward. These studies are typically conducted every three-to-five years. This study resulted in the board selecting a new asset mix that its consultant said could be expected to return in excess of 8% per year over the long term.

Second, the board requested an actuarial experience review of the economic and demographic assumptions used to calculate pension liabilities. The system's actuarial consultant, PricewaterhouseCoopers, compared what actually happened in the three years since STRS Ohio's last review, versus what was expected to happen in the areas of mortality, service retirements, withdrawals, inflation, investment returns, salary growth and payroll growth.

Based on this review and the recommendation of PricewaterhouseCoopers, the board approved changes to several of its actuarial assumptions, including lowering its assumed investment rate of return to 7.75% from 8%. Even though the board's investment consultant said it could expect a long-term return of 8% or higher based on its new asset mix, the board approved the change to a more conservative return assumption. STRS Ohio is also changing its mortality tables to recognize that our members are living longer and therefore, the system is paying benefits longer.

These revised actuarial assumptions, along with applying the data from the system's most recent actuarial valuation, had a negative net impact on pension funding. STRS Ohio also heard from constituents and legislators that the reform plan should have a smoother transition to new retirement eligibility rules for members who are nearing retirement. Factoring this into STRS Ohio's revised plan further extended the funding period.

The plan that I am presenting to you today was passed unanimously by the Retirement Board on April 19. The plan is also supported by the Healthcare and Pension Advocates for STRS — a coalition that is comprised of groups representing more than 470,000 members and retirees as well as employers. This group of stakeholder advocates has worked closely with the Retirement Board since 2004 and has reached consensus on these funding solutions. The plan calls for no additional employer contributions, maintains a 1% employer contribution to STRS Ohio's health care fund and saves more than $11.6 billion in accrued liabilities.

The plan increases age and service requirements for retirement; calculates pensions on a lower, fixed formula; increases the period for determining final average salary; increases member contributions to the system; reduces the cost-of-living adjustment (COLA); defers the COLA for future retirees; and calls for no COLA to be added in fiscal year 2014.

Before concluding my prepared remarks, I would like to spend a moment on the STRS Ohio Health Care Program. I am confident that you share the Retirement Board's belief that a viable retirement is difficult to achieve if health care coverage is unavailable or financially prohibitive. The most recent valuation of STRS Ohio's health care fund showed a balance of $2.97 billion. The life of the fund extends to 2039 — an increase of about 15 years from last year's valuation. Our pension reform plan maintains a 1% employer contribution to the health care fund and allows the Retirement Board to continue working on a long-term strategic health care plan.

Mr. Chairman, members of the committee, in addition to our work with the Healthcare and Pension Advocates, we are continuing to educate STRS Ohio's constituents about the changes that the board approved this spring and we are asking for their continued support. STRS Ohio has used its website, newsletters and email news service to provide timely updates to the membership. Board and staff members also travel throughout the state to meet face-to-face with members to share details of the board's proposed plan. We know that you may hear from individual constituents who are unhappy about the Retirement Board's proposed changes, but without changes, the time will come when STRS Ohio will be unable to pay pensions. And as I noted earlier, the proposed changes have the broad support of the Healthcare and Pension Advocates for STRS.

In July, the Ohio Retirement Study Council received the results of an independent study on pension reform from Pension Trustee Advisors. STRS Ohio was pleased to see that the study supports the continuation of Ohio's defined benefit plans and found that the systems' reform plans will put them in a "much more solid financial position than under current law." Regarding STRS Ohio's reforms, the report stated, "Although the proposed 30-year plan does not quite satisfy the objectives of fully funding the unfunded actuarial liability over no longer than 30 years initially, health care benefits are expected to remain solvent indefinitely and the retirement system is projected to meet the 30-year requirement by 2016 and be 100% funded by 2041." It is clear that the Retirement Board's plan fully complies with Ohio law by showing a path to reach the 30-year funding goal. It is also noteworthy that the report encourages a mechanism to adjust for future actuarial experience — an objective that would be met by our intent to give the board authority to make modifications to plan design in the future, if necessary. This proposal for additional board authority also has the support of our constituent groups.

Again, on behalf of the Retirement Board, staff and STRS Ohio members, I want to thank you for your willingness to preserve the pensions that help provide financial security for retired teachers and continue the steady flow of revenue into Ohio's 88 counties. You are maintaining a successful public policy dating back to 1920 and supporting continued investment in the state's future. If we can assist you in answering questions from your constituents, please let us know. Terri Bierdeman and Marla Bump are both available to assist you by answering questions and providing data.

I have provided each of you with a handout that details our proposed changes. We have been sharing this information with our members in meetings around the state and have it available on our website. To be respectful of your time this afternoon, rather than review this in detail, I would be happy to respond to any questions you may have related to our plan benefits.

Aug. 3, 2012

The Honorable Kirk Schuring
House of Representatives
77 S. High St.
11th Floor
Columbus, OH 43215-6111

STRS OHIO
STATE TEACHERS RETIREMENT SYSTEM OF OHIO

275 East Broad Street
Columbus, OH 43215-3771
614-227-4090
www.strsoh.org

Dear Representative Schuring:

I am writing to follow up on our recent conversation regarding STRS Ohio's plan to strengthen the financial condition of the retirement system. As the current chair of the House Health and Aging Subcommittee on Retirement and Pensions and a former chair of the Ohio Retirement Study Council, you have worked extensively with Ohio's retirement systems and have much experience to share with your legislative colleagues regarding the current pension reform bills.

The pension plan design changes in STRS Ohio's proposal represent the first time in the retirement system's history that benefit reductions are being sought. These difficult, but necessary changes were passed unanimously by the State Teachers Retirement Board and have the support of the Healthcare and Pension Advocates for STRS — a coalition that is comprised of groups representing 470,000 members and retirees as well as employers. This group of stakeholder advocates has worked closely with the Retirement Board since 2004 and has reached consensus on funding solutions.

During our conversation, we discussed the fact that STRS Ohio's reform plan now reduces the system's funding period to 36 years from its current infinite funding period. As you know, when the funding period exceeds 30 years, Ohio law requires the pension system to submit a plan that indicates how it will reduce the amortization period to not more than 30 years. STRS Ohio complies with this law by showing the funding progress if actuarial assumptions are met. This reduction in the funding period is also highlighted in the attached letter from STRS Ohio's actuarial consultant, PricewaterhouseCoopers (PwC), which states that the funding period for the board-approved plan will decrease to 21 years by July 1, 2014, assuming that actuarial assumptions are met. I also call your attention to the Pension Trustee Advisors report to the Ohio Retirement Study Council which states on Page 130, "Although the proposed 30-year plan does not quite satisfy the objectives of fully funding the unfunded actuarial liability over no longer than 30 years initially, health care benefits are expected to remain solvent indefinitely and the retirement system is projected to meet the 30-year requirement by 2016 and be 100% funded by 2041."

Rep. Schuring, I want to thank you on behalf of the State Teachers Retirement System staff, board and our 470,000 members for your support of Ohio's retirement systems throughout your legislative career and for your careful consideration of the board's pension reform plan. As noted above, the plan fully complies with Ohio law by showing a path to reach the 30-year funding goal. Further, the plan includes language — supported by constituents — that would give the Retirement Board authority to make plan design modifications, if necessary, to adjust for future actuarial experience. I look forward to presenting our plan to the Subcommittee next week and for the chance to address any questions that Subcommittee members may have.

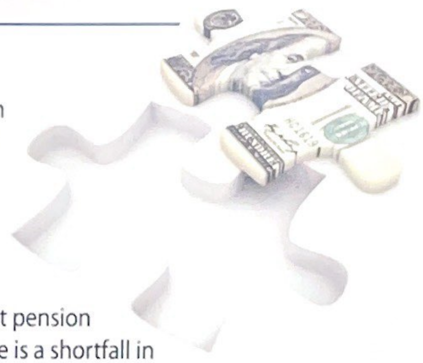
Sincerely,

Mike Nehf

Michael J. Nehf
Executive Director

Pension Plan Reform
STATE TEACHERS RETIREMENT SYSTEM OF OHIO
Update
STRS OHIO
May 2012

STRS Ohio plan to strengthen the financial condition of the retirement system



The issue

Before the 2008 investment market downturn, STRS Ohio had a funding period for its pension fund of 41.2 years, exceeding state statute's 30-year maximum funding period. Economic and demographic factors, such as members living longer, were causing a reduction in available funds to pay off accrued liabilities over time. The unprecedented decline in the global investment markets and the accompanying recession, along with the protracted economic recovery, significantly accelerated the need for STRS Ohio to make changes.

In these challenging times, the value of preserving the financial security of the defined benefit pension for Ohio's public educators has never been more important. However, looking long term, there is a shortfall in the funding of STRS Ohio benefits. If no changes are made, STRS Ohio will eventually be unable to pay benefits.

Planning process

In March 2009, the State Teachers Retirement Board took the prudent and proactive step to begin a long-term contingency planning process to address the funding challenge. The board pledged that the process would be detailed, thorough and deliberative, noting that no actions would be taken lightly as all actions impact STRS Ohio members and employers. The board took an important step to strengthen the financial condition of the pension fund by approving a pension reform plan in January 2011, but the plan required legislative action. After hearings on the pension reform bills in the Ohio House and Senate, the Ohio Retirement Study Council asked for further study on the reform plans, and the legislation is pending.

In February 2012, legislative leaders expressed renewed interest in moving the pension legislation. It was suggested that STRS Ohio's pension reform proposal would need broad support from its constituents. Equipped with recently completed actuarial studies and an asset-liability study, the Retirement Board saw that the January 2011 plan no longer met the 30-year pension funding requirement. At its April 19, 2012, meeting, the board unanimously passed a reform plan that will help ensure STRS Ohio can continue to pay pensions to future generations of teachers. The plan addresses stakeholders' requests for a smoother transition to new retirement eligibility rules, and the board's actuarial consultant estimates the plan reduces the pension funding period to 36 years. The plan is projected to save $11.6 billion in accrued liabilities, does not include any increase in employer contributions and maintains a 1% employer contribution to STRS Ohio's health care fund. The Ohio Senate passed STRS Ohio's long-awaited pension reform bill (Sub. Senate Bill 342) on May 16 by a 31-2 vote, paving the way for the House to hopefully take similar action yet this year.

STRS Ohio Pension Reform Timeline

WINTER 2009 | SPRING 2009 | SUMMER 2009 | FALL 2009 | WINTER 2010 | SPRING 2010 | SUMMER 2010 | FALL 2010 | WINTER 2011 | SPRING 2011 | SUMMER 2011 | FALL 2011 | WINTER 2012 | SPRING 2012

MARCH 2009
Board begins long-term contingency planning process in response to demographic trends and market losses

SPRING/SUMMER 2009
Board continues discussion on funding plan

SEPTEMBER 2009
Board presents plan to ORSC to achieve 30-year funding

SEPTEMBER 2009
Board adopts plan for pension design and contribution changes

NOVEMBER 2009
Draft pension legislation under review

OCTOBER 2010
Board adopts revisions to long-term pension reform plan

JANUARY 2011
Board responds to feedback from Statehouse, amends long-term pension reform plan

FEBRUARY 2011
Pension legislation introduced

FEBRUARY 2011
Staff provides testimony in support of H.B. 69

NOVEMBER 2011
ORSC hires actuarial firm to study reform plans of five Ohio systems

FEBRUARY 2012
Board requests updated actuarial experience review

MARCH 2012
Staff presents scenarios to board to reduce liabilities and funding period

MARCH 2012
Board approves new actuarial assumptions — plan falls outside 30-year funding requirement

APRIL 2012
Board adopts updated plan to strengthen the financial condition of the pension plan

MAY 2012
Ohio Senate passes pension reform legislation; STRS Ohio hopeful that House will take action

STRS Ohio plan to strengthen the financial condition of the retirement system

The plan

During its recent asset-liability study and review of actuarial assumptions, STRS Ohio, at the suggestion of its investment consultant and actuary, lowered its expected long-term rate of return on investment assets to 7.75%. This change, along with other modifications to the actuarial assumptions, required the board to revisit its pension reform plan and make further changes. As a result, the board approved a multifaceted plan to strengthen the financial condition of the retirement system that includes the components below:

Change in eligibility for retirement beginning Aug. 1, 2015

— Increases age and service requirements for retirement.

Service credit requirements for retirement with an **unreduced benefit** would increase to 35 years of service by Aug. 1, 2023. A minimum age 60 requirement would be added beginning Aug. 1, 2026. This change would be phased in based on the timeline shown to the right. Members may also still retire at age 65 with a minimum of five years of service credit.

Unreduced Benefit for Retirement Between:	Minimum Age and Years of Service
Now–7/1/2015	Any age and 30 yrs.; or age 65 and 5 yrs.
8/1/2015–7/1/2017	Any age and 31 yrs.; or age 65 and 5 yrs.
8/1/2017–7/1/2019	Any age and 32 yrs.; or age 65 and 5 yrs.
8/1/2019–7/1/2021	Any age and 33 yrs.; or age 65 and 5 yrs.
8/1/2021–7/1/2023	Any age and 34 yrs.; or age 65 and 5 yrs.
8/1/2023 –7/1/2026	Any age and 35 yrs.; or age 65 and 5 yrs.
8/1/2026	Age 60 and 35 yrs.; or age 65 and 5 yrs.

The service credit requirements for an **actuarially reduced benefit** would be phased in beginning Aug. 1, 2015, gradually increasing to 30 years of service by Aug. 1, 2023. This change would be phased in based on the timeline shown to the right. Members may also still retire at age 60 with a minimum of five years of service credit, but the benefit would be actuarially reduced beginning Aug. 1, 2015.

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

*An actuarially reduced benefit reflects a reduction for each year that a member retires before meeting eligibility for an unreduced benefit.

Change in benefit formula beginning Aug. 1, 2015

— New formula would be 2.2% for all years of service.

The current 35-year enhanced benefit formula would be eliminated after July 1, 2015. Teachers retiring with 35 years of service as of Aug. 1, 2015, or later would receive 77% of their final average salary as a pension. Beginning Aug. 1, 2026, members will need to be age 60 to receive an unreduced benefit with 35 years of service.

Members who are eligible to retire on July 1, 2015, would maintain retirement eligibility, and the benefit would be the greater of:

(a) The benefit calculated upon retirement under the new benefit formula, or

(b) The benefit as of July 1, 2015, under the current formula.

Increase in final average salary (FAS) years beginning Aug. 1, 2015

— FAS calculation would be the average of the five highest years of earnings.

Pension benefits are determined by a member's age, years of service and FAS; the current FAS period is three years.

Increase in member contributions beginning July 1, 2013

— Increase member contributions by 4%, phased in 1% per year beginning July 1, 2013, through July 1, 2016.

Currently, STRS Ohio members pay 10% of their salary to STRS Ohio in lieu of paying into Social Security.

Changes to the cost-of-living adjustment (COLA), effective in fiscal year 2013

- Members who retired anytime BEFORE July 1, 2013, would not receive a COLA during the 2014 fiscal year (July 1, 2013–June 30, 2014). For example, a member who retired on Aug. 1, 1997, would not receive a COLA on Aug. 1, 2013.
- Members who retire effective July 1, 2013, would not receive a COLA on July 1, 2014.
- After missing one COLA, retirees would resume COLAs at 2% per year.
- Members retiring AFTER July 1, 2013, would also receive a 2% COLA, but it would not begin until the fifth anniversary of retirement. For example, a member who retires Aug. 1, 2013, would receive his or her first COLA on Aug. 1, 2018, and that COLA would be 2%.

Next steps

All changes in STRS Ohio's proposed plan require legislative action by the Ohio General Assembly and the governor, as all the plan components require changes in existing statute. The other four statewide public pension plans have also developed plans to strengthen their financial condition, but due to variations in each system's funding situation, demographics and plan design, there is variation among these approaches.

In addition to the plan changes detailed in this document, the Retirement Board also agreed to support a change in Ohio statute to give the board authority to adjust benefits in the future as necessary to maintain compliance with the 30-year funding requirement in the Ohio Revised Code.

Legislative leaders are looking for constituent support for these plan changes. A letter, phone call or email is a positive way to show your support and to let the General Assembly know that these changes are necessary and will help ensure the long-term solvency of STRS Ohio.

Legislative leaders are looking for constituent support for these plan changes. A letter, phone call or email is a positive way to show your support and to let the General Assembly know that these changes are necessary and will help ensure the long-term solvency of STRS Ohio.

Looking to the future

The Retirement Board will continue to annually review the actuarial valuations of the pension fund and the health care fund to monitor both funds' progress over time. The board will also continue to work with its many constituents, as well as with the other Ohio systems and members of the Ohio Legislature, as these bills move through the Statehouse.

The STRS Ohio plan:

- Provides retired teachers a reasonable and reliable defined benefit pension they won't outlive, reducing the likelihood they will have to turn to taxpayer-funded public assistance, Medicaid or social services in retirement. Further, these pensions can continue to provide a stable source of revenue for local economies and provide tax revenues to support needed government services (more than $4 billion in STRS Ohio pensions are paid annually to Ohio residents).
- Continues to offer a retirement plan that will help Ohio's public schools, colleges and universities recruit and retain quality educators.
- Provides a transition period for those teachers who are close to retirement, while recognizing that those further out from retirement have more time to plan for their future financial security.
- Preserves all past cost-of-living adjustments (COLAs) and ad hoc increases for current retirees.
- Allows retirees' pensions to continue to grow in the future, but at a slower rate.

At STRS Ohio we know there are no easy solutions to the challenges we face. We will continue to use our newsletters, website, *eUPDATE* email news service and face-to-face meetings to do what we can to make sure members know the progress of the legislation and any changes going forward.

LATEST DETAILS

on proposed pension legislation

www.strsoh.org

WITNESS INFORMATION FORM

PLEASE COMPLETE THE WITNESS INFORMATION FORM BEFORE TESTIFYING

DATE: Aug. 8, 2012

NAME: Bob Slater

ORGANIZATION: STRS Ohio
(IF APPLICABLE)

POSITION/TITLE: Dep. Ex. Dir, CFO

ADDRESS: 275 E. Broad St.

CITY: Columbus STATE: Oh. ZIP: 43214

TELEPHONE: 227-4009

ARE YOU REPRESENTING: YOURSELF______ ORGANIZATION ✓

DO YOU WISH TO TESTIFY ON
LEGISLATION (BILL NUMBER): SB 342
SPECIFIC ISSUE: ______
SUBJECT MATTER: ______

DO YOU FAVOR ✓ OR OPPOSE ______ THE ENACTMENT OF LEGISLATION REGARDING THIS ISSUE?

PLEASE GIVE A BRIEF STATEMENT OF THE GROUNDS ON WHICH YOU FAVOR OR OPPOSE SUCH ENACTMENT:

Responding to questions from Rep. Wachtmann relative to the liability reductions b/t original STRS board recommendations and current recommendations

WILL YOU HAVE A WRITTEN STATEMENT, VISUAL AIDS, OR OTHER MATERIAL TO DISTRIBUTE?
YES____ NO ✓
(IF YES, PLEASE PROVIDE COPIES TO THE CHAIRMAN OR SECRETARY)

HOW MUCH TIME WILL YOUR TESTIMONY REQUIRE? 5 min.

WITNESS INFORMATION FORM

PLEASE COMPLETE THE WITNESS INFORMATION FORM BEFORE TESTIFYING

DATE: 8-8-12

NAME: Sandy Knoesel

ORGANIZATION: STRS Ohio
(IF APPLICABLE)

POSITION/TITLE: Deputy Ex. Dir. Member Benefits

ADDRESS: 275 E Broad St.

CITY: Columbus STATE: OH ZIP: 43215

TELEPHONE: 227-4090

ARE YOU REPRESENTING: YOURSELF ______ ORGANIZATION ✓

DO YOU WISH TO TESTIFY ON
LEGISLATION (BILL NUMBER): SB 342
SPECIFIC ISSUE: healthcare
SUBJECT MATTER: ______

DO YOU FAVOR ✓ OR OPPOSE ______ THE ENACTMENT OF LEGISLATION REGARDING THIS ISSUE?

PLEASE GIVE A BRIEF STATEMENT OF THE GROUNDS ON WHICH YOU FAVOR OR OPPOSE SUCH ENACTMENT:

WILL YOU HAVE A WRITTEN STATEMENT, VISUAL AIDS, OR OTHER MATERIAL TO DISTRIBUTE?
YES ____ NO ✓
(IF YES, PLEASE PROVIDE COPIES TO THE CHAIRMAN OR SECRETARY)

HOW MUCH TIME WILL YOUR TESTIMONY REQUIRE? ______

Witness Information Form

Please complete the Witness Information Form before testifying

Date: 8-15-12

Name: Bill Leibensperger

Organization: The Ohio Education Association
(If applicable)

Position/title: Vice President

Address: 225 E. Broad St.

City: Columbus State: OH Zip: 43215

Telephone: 614-227-3088

Are you representing: yourself ___ organization X

Do you wish to testify on
legislation (bill number): SB 341, 342, 343
specific issue: ___
subject matter: ___

Do you favor X or oppose ___ the enactment of legislation regarding this issue?

Please give a brief statement of the grounds on which you favor or oppose such enactment:

OEA supports the plans to improve the financial position of the STRS, SERS and OPERS pension systems reflected in SB 341, 342, 343

Will you have a written statement, visual aids, or other material to distribute?
Yes X No ___
(If yes, please provide copies to the chairman or secretary)

How much time will your testimony require? 15 min.

OEA
OHIO EDUCATION ASSOCIATION

Patricia Frost-Brooks, President
William Leibensperger, Vice President
Jim Timlin, Secretary-Treasurer
Larry E. Wicks, Executive Director

The OEA will lead the way for continuous improvement of public education while advocating for members and the learners they serve.

Proponent Testimony on Pension Reform Legislation: Senate Bills 341, 342, and 343
House Subcommittee on Retirement and Pensions
Wednesday, August 15, 2012

Chairman Schuring and members of the Committee,

My name is William Leibensperger, Vice President of the Ohio Education Association. On behalf of our 124,000 members, thank you for the opportunity to offer testimony on pension reform legislation. The issue before this committee is of great importance to every one of our members. Those who dedicate their careers to serving Ohio's students need and deserve reliable retirement benefits. For Ohio's public employees, the pension and health care benefits provided by the state retirement systems represent their financial security in retirement.

OEA has members in three of the state retirement systems: STRS, SERS and OPERS. We steadfastly support the continuation of defined benefit pension plans for Ohio's public employees. We also recognize the need for changes to the pension systems going forward in order to assure that those plans are stable, reliable and continue to offer access to meaningful health care coverage.

The massive and rapid economic downturn hit each of the retirement systems hard and put the long-term solvency of the pension systems in jeopardy. What happened on Wall Street and in the world economy was not the fault of our members, the pension systems, or anyone on this committee. While the economy has improved, we recognize that investment returns alone are not going to solve this problem. All of this has required difficult decisions.

For the past three years, OEA has been working with its members, the retirement systems and other stakeholder groups looking at potential solutions. Some of the principles that have guided our work are: a realistic view of market recovery; sharing responsibility equitably among stakeholder groups; and phasing in changes to have less impact on those at the latter stages of their career.

OEA supports the plans adopted by the retirement boards of STRS, SERS and OPERS reflected in the legislation before this committee. These plans are responsive to the economic and demographic situations each system. I applaud the Senate for its action to pass these bills in a bipartisan manner and urge the House to take action as well. I will briefly discuss the major components of each system's plan:

STRS (SB 342)

To be clear, the funding picture for STRS is worse than the other two systems. The funding period (the amount of time needed to pay off the unfunded liability) is infinite. This means, left unchanged, STRS would eventually be unable to meet its obligations to current and future retirees. This must be addressed. In order to restore STRS to sustainability, liabilities must be reduced, their growth slowed and the unfunded liabilities must be paid down at a faster rate. Put simply, this means reduced benefits and increased contributions for our members in order to better ensure a reliable pension in retirement.

OEA supports the most recent plan by the STRS Board, reflected in SB 342, to make changes to benefits and contribution rates in order to establish long-term solvency. This plan, passed unanimously by the STRS Board in April 2012, made a critical improvement to proposed changes in retirement eligibility from the prior plan which we were unable to support. Addressing the issue of an "eligibility cliff" was of great importance to our members. We also realize that the longer it takes to enact change the more costly the changes needed are likely to be. For these reasons, we believe the time to act is now.

Eligibility: Retirement with full benefits at age 65 with at least 5 years of service is maintained. Otherwise, beginning in 2015, SB 342 gradually increases the years of service needed to retire with full benefits from 30 years to 35 years. After 2026, a member would need to have 35 years of service and be at least 60 years old for full benefits.

For early retirements, members could retire at age 60 with 5 years of service or with 30 years of service at any age. However, members who choose to retire early would have their benefits actuarially reduced.

Contributions: The Board-adopted plan calls for gradually increasing employee contributions from 10% to 14% of pay.

Cost-of-Living Allowance (COLA): The bill would lower the COLA rate for current retirees from 3% to 2% and have a freeze on increases for FY 2014. For future retirees (beginning August 2013) the COLA rate would also be 2% but the first increase would come after 60 months of retirement.

Benefit Formula and Final Average Salary (FAS): Beginning in 2015 the formula would be 2.2% for each year of service and the final average salary would be calculated on five years of salary rather than three. Those who are eligible to retire by July 1, 2015 but elect to continue working would receive no less of a base benefit than current law allows.

SERS (SB 341)

As I mentioned earlier, OEA supports the changes proposed by the SERS Board reflected in SB 341. The bill calls for changes in retirement eligibility that would generally apply to those who currently have fewer than 20 years of service. The SERS plan does not call for changes in contribution rates, COLA, formula or final average salary. The current fiscal condition of SERS does not warrant such changes. This is important due to the low wages of many educational support personnel and the low monthly pensions of the average SERS retiree.

Retirement Eligibility: Beginning August 1 2017, retirement eligibility with full benefits would be 10 years of service at age 67 or 30 years of service at age 57. A member could retire early with 10 years of service at age 62 or 25 years of service at age 60. Early retirements would be subject to an actuarial reduction of benefits. Members that would have at least 25 years of service by 2017 are grandfathered from these changes.

OPERS (SB 343)

Additionally, OEA supports the changes proposed by the OPERS Board reflected in Senate Bill 343. The changes proposed are designed in order to continue contributions toward a meaningful health care benefit for current and future OPERS retirees. The OPERS plan divides employees into three groups. Those who are within five years of retirement (Group A) or between five and ten years from retirement (Group B) are grandfathered from some of the proposed changes.

Retirement Eligibility: For Group B, eligibility for full benefits increases to 31 years of service and age 52, 32 years of service at any age, or five years of service at age 66. For Group C, eligibility for full benefits increases to 32 years of service at age 55 or five years of service at age 67. For both groups, early retirements result in actuarially reduced benefits. Group A is grandfathered into current eligibility requirements.

Formula and FAS: For Group C only, the formula would be 2.2% for the first 35 years and 2.5% for each year thereafter with FAS calculated on the five highest years of salary (up from 3).

Cost-of-Living Allowance (COLA): For current retirees the COLA would remain 3%. For those retiring after the bill's effective date (Groups A, B and C) the COLA would be the increase in the Consumer Price Index (CPI) capped at 3%.

In closing, I would like to recognize that this is a complex and highly emotional issue. We understand that any proposal to reduce benefits will make some of our members (and your constituents) angry. However, we recognize the need for change in order to fix a real problem. Ohio's public retirement systems have served our members and Ohio's taxpayers well. We must act to continue and strengthen these systems for the long haul. To that end, I urge your favorable consideration of SB 341, 342, and 343.

Thank you, Chairman Schuring. Robert Davis with OEA Governmental Services is also here and we are available to answer questions from the members of the committee.

WITNESS INFORMATION FORM

PLEASE COMPLETE THE WITNESS INFORMATION FORM BEFORE TESTIFYING

DATE: Aug. 15, 2012

NAME: Ann Hanning

ORGANIZATION: Ohio Retired Teachers Assn. (ORTA)
(IF APPLICABLE)

POSITION/TITLE: Executive Director

ADDRESS: 8050 N. High St # 190

CITY: Columbus STATE: Oh ZIP: 43235-6488

TELEPHONE: 614 431-7002

ARE YOU REPRESENTING: YOURSELF______ ORGANIZATION ✓

DO YOU WISH TO TESTIFY ON
LEGISLATION (BILL NUMBER): On SB 342
SPECIFIC ISSUE: ______
SUBJECT MATTER: ______

DO YOU FAVOR ✓ OR OPPOSE ______ THE ENACTMENT OF LEGISLATION REGARDING THIS ISSUE?

PLEASE GIVE A BRIEF STATEMENT OF THE GROUNDS ON WHICH YOU FAVOR OR OPPOSE SUCH ENACTMENT:

WILL YOU HAVE A WRITTEN STATEMENT, VISUAL AIDS, OR OTHER MATERIAL TO DISTRIBUTE?
YES ✓ NO ____
(IF YES, PLEASE PROVIDE COPIES TO THE CHAIRMAN OR SECRETARY)

HOW MUCH TIME WILL YOUR TESTIMONY REQUIRE? 3-5 minutes

ORTA OHIO RETIRED TEACHERS ASSOCIATION

ANN HANNING
EXECUTIVE DIRECTOR
(614) 431-7002
ahanning@orta.org

8050 N. HIGH STREET, SUITE 190
COLUMBUS, OH 43235-6488
FAX (614) 431-7003
http://www.orta.org

Proponent Testimony on Am SB 342
STRS Plan for Pension Solvency
The House Health and Aging
Subcommittee on Retirement and Pensions
August, 2012

Ann Hanning, Executive Director
Ohio Retired Teachers Association

Good afternoon, Chairman Schuring, Ranking Minority Member Hagan, and Members of the House Health and Aging Subcommittee on Retirement and Pensions.

I am Ann Hanning, Executive Director of the Ohio Retired Teachers Association (ORTA). We currently have almost 30,000 members who are stakeholders in STRS Ohio. ORTA is a member of the Healthcare & Pension Advocates (HPA) for STRS.

At a meeting on May 3, 2012, the ORTA Board passed a motion supporting the STRS proposed solvency plan (as amended 4/19/12). This plan was passed in May by the Senate as Am SB 342 in May.

Retirees do not like the suspension and reduction in the COLA. However, most retirees understand the STRS financial situation. Thus, they are accepting and supporting Am SB 342. We know that some changes need to be made – the sooner the better for STRS and all its members.

ORTA supports and encourages a return to a 3% COLA when the "good times roll".

The defined benefit pension plan is very important to retirees. It is also very important as a stabilizer for Ohio and local economies. Most retirees spend their pension dollars in our state and their local communities.

Access to affordable health care is of utmost importance for retirees. Thank you for the opportunity to address you today. I'll respond to your questions.

WITNESS INFORMATION FORM

PLEASE COMPLETE THE WITNESS INFORMATION FORM BEFORE TESTIFYING

DATE: 8/15/12

NAME: Greg R. Lawson

ORGANIZATION: Buckeye Institute
(IF APPLICABLE)

POSITION/TITLE: Statehouse Liaison

ADDRESS: 88 East Broad St Suite 1120

CITY: Cols. STATE: Oh. ZIP: 43212

TELEPHONE: 614-224-4422

ARE YOU REPRESENTING: YOURSELF______ ORGANIZATION ✓

DO YOU WISH TO TESTIFY ON
LEGISLATION (BILL NUMBER): multiple pension bills
SPECIFIC ISSUE: ______
SUBJECT MATTER: ______

DO YOU FAVOR ______ OR OPPOSE ______ Interested Party THE ENACTMENT OF LEGISLATION REGARDING THIS ISSUE?

PLEASE GIVE A BRIEF STATEMENT OF THE GROUNDS ON WHICH YOU FAVOR OR OPPOSE SUCH ENACTMENT:

WILL YOU HAVE A WRITTEN STATEMENT, VISUAL AIDS, OR OTHER MATERIAL TO DISTRIBUTE?
YES ✓ NO____
(IF YES, PLEASE PROVIDE COPIES TO THE CHAIRMAN OR SECRETARY)

HOW MUCH TIME WILL YOUR TESTIMONY REQUIRE? 10 minutes

Interested Party Testimony on Public Pension Reform for the House Health and Aging Subcommittee on Retirement and Pensions
Greg R. Lawson, Statehouse Liaison
The Buckeye Institute for Public Policy Solutions
August 15, 2012

Thank you Chairman Schuring, Ranking Member Hagan and members of the committee for providing the Buckeye Institute this opportunity to discuss how Ohio can best reform its public pension systems. My name is Greg R. Lawson; I am the Statehouse Liaison at the Buckeye Institute for Public Policy Solutions.

The Buckeye Institute is a non-profit, non-partisan, free-market think tank. To that end, we believe that a low tax, limited regulation environment best attracts business, fosters job growth, and results in stronger, more vibrant communities.

This testimony is substantially similar to that what was previously presented before the Senate, but we felt it was imperative to put this debate into an appropriate context.

Public pension reform is a multi-billion dollar issue that affects all Ohioans—from the government employees who rely upon these programs for retirement income to the private-sector taxpayers who help fund them. Reforming these systems will undoubtedly have a significant impact on Ohio's fiscal health years and decades into the future. Thus, the stakes are high for getting things right and for making sure that all issues surrounding our state pensions are fully vetted.

Let me make it perfectly clear at the outset that OPERS is an extremely well run public pension system when compared to those of many other states. If the status quo of a defined benefit system is the goal, then many of the changes made by the Senate, as well as the further recommendations from the Ohio Retirement Study Council report, accomplish this.

However, the guiding principle of reform should be more than attempting to ensconce the status quo. It should be to establish public retirement systems that not only provide reasonable retirement benefits, but do so at a permanently sustainable cost to taxpayers.

We would not be here if Ohio did not face a serious pension dilemma. Unfunded pension liabilities from Ohio's five public pension funds total roughly $70 billion—an amount equivalent to 126 percent of the biennial budget. While there are clearly major differences between the pension systems and the types of personnel they serve, collectively those pension funds are roughly only 67 percent funded. (A funding ratio above 80 percent is generally considered to be fiscally sound.[1]) According to the latest comprehensive annual financial reports of each pension system, three of the funds are well beyond the statutorily required 30-year amortization window. Clearly this trajectory is unsustainable.

While the need for reform is obvious, the path forward is less clear. In recent years, over 40 state legislatures have enacted significant pension reform legislation.[2] The degree of reform has ranged from small adjustments to existing plans to the wholesale restructuring of the defined-benefit system.

While the reforms currently on the table in Ohio, and outlined in the recent Retirement Study Council report, are superior to the status quo this debate offers a unique chance to be bold and move Ohio to a system that better fits the imperatives of the 21st Century.

The Buckeye Institute is generally supportive of several of the recommended reforms under consideration. The anti-spiking provisions, the longer look back period, the increased retirement age and increasing discretionary power of the pension boards are all positive. Nevertheless, these changes are tactical and do not make our systems as flexible as needed in a vibrant, ever changing global economic environment.

As the Buckeye Institute makes clear in our report *Hanging By a Thread*, a transition away from the status quo defined-benefit system to either a mandatory defined-contribution plan or defined-benefit/defined-contribution hybrid would be a significant and bold move.

Defined-contribution and hybrid reforms are wise for at least three reasons: lower costs, less risk, and greater portability.

A debate on cost savings through public pension reform must begin with a discussion of overall equity between the public and private sectors in terms of retirement income. By many measures, the retirement benefits received by government workers in Ohio, on average, are more generous than those received in the private sector. A good method to compare the generosity of retirement plans is to compare contribution rates.

The average Ohio government employee receives a 14 percent contribution of salary from his or her employer, in this case, taxpayers. That contribution will then be matched by a 10 percent employee contribution. (Public employees do not participate in Social Security in Ohio.) Meanwhile, the average private-sector worker in Ohio receives a 6.2 percent employer contribution toward Social Security and an average 4.0 percent contribution to a 401(k), totaling 10.2 percent of pay.[3]

The resulting 14 to 10.2 percent differential provides government employees with a significant financial advantage over private-sector workers. To see how this difference

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1 "State and Local Government Pension Plans, Current Structure and Funded Status," Testimony before the Joint Economic Committee, Government Accountability Office, GAO-08-983&, July 10, 2008. <http://www.gao.gov/assets/130/120599.pdf>

2 Snell, Ronald. "Pensions and Retirement Plan Enactments in 2011 State Legislatures," National Conference of State Legislatures, 4 May 2012.

3 Mayer, Matt. "The Grand Bargain is Still Dead," The Buckeye Institute for Public Policy Solutions, 7 May 2012.

benefits career government employees at retirement, please visit the Buckeye Institute's retirement comparison calculator (www.buckeyeinstitute.org/pensions101/).

Our calculations indicate that Ohio could save $3.3 billion over the course of 30 years by establishing a defined-contribution plan equivalent to private-sector standards.[4] Additionally, defined-contribution systems accrue no unfunded liabilities, which would begin to wind down Ohio's pension debt once and for all.

Equally important to cost savings is reducing risk exposure to taxpayers. Again, both defined-contribution plans and hybrid models are superior to defined-benefit systems.

Under the current defined-benefit pension plans, government employees face zero risk in securing their retirement income. Regardless of financial market performance, retiree benefits must be paid, as required by law. The responsibility to pay these benefits falls squarely into the laps of taxpayers.

Private-sector workers face substantially more risk in securing their retirement income. While Social Security payments to private sector retirees are guaranteed (although serious questions about the program's long-term fiscal viability are well known), the investment risk of 401(k) plans fall on the individual.

While a full-blown defined contribution plan would be the gold standard to avoid any potential taxpayer risk, a mandatory hybrid pension plan would still be a better reflection of the risk that private-sector workers face than the current system. Under a hybrid system, public employees would be provided a smaller, taxpayer guaranteed defined-benefit pension and an accompanying defined-contribution account to provide the remainder of retirement savings. Risk is spread more equitably and unfunded liabilities are limited.

It should also be noted that each of Ohio's pension funds assumes a rate of investment return (between 7.75 and 8.25 percent) that many deem to be overly optimistic. When returns fall short, as they have over the past decade, liabilities increase, putting an even greater burden on taxpayers. And to achieve these high investment goals, the pension systems have devoted larger portions of their portfolios to higher risk investments such as hedge funds, private equity investments, and real estate. Yes, it is still possible for those rates to potentially be accomplished over a 20-year plus time period, but global instability raises questions about long-term market prospects. Consequently, continuing to assume these rates is risky.

Ohio's pension funds should adopt more conservative investment assumptions—Indiana recently lowered its investment assumption to 7 percent. Doing so would put taxpayer investments on firmer fiscal footing and less subject to volatile and unpredictable financial markets.

Finally, defined-contribution and hybrid plans offer workers greater control and ownership of their retirement and greater portability. The current system is designed for workers to join the system and retire 30 years later. Today's economy is different. Today's college graduates are entering a workforce where in-demand skills change rapidly—as such,

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[4] McCleary, Mary. "The Impact of Shifting Ohio State Workers from Defined Benefit Plans to Defined Contribution Plans," The Buckeye Institute for Public Policy Solutions, 4 May 2012.

multiple career changes have become more commonplace. There must be enough flexibility built into the systems to allow easy access in and out of public service. Public sector retirement plans must adapt to this new economic model; the best way to do that is with defined-contribution and hybrid reforms.

Perhaps the greatest evidence of the benefits of defined-contribution and hybrid plans is the states. A growing number of states have either passed comprehensive pension reform legislation or are actively debating such proposals today.

Washington, DC transitioned to a defined-contribution plan in 1987. Michigan closed its defined-benefit pension plan to state employees in 1997, offering a defined-contribution plan, and has saved the state upwards of $2.3 billion.[5] Utah ended its defined-benefit plan in 2010, offering the choice of either a defined-contribution plan or a hybrid model. In late 2011, Rhode Island overwhelmingly passed, on a bipartisan basis, mandatory hybrid legislation for its state employees. And just last month, Virginia established its own mandatory hybrid plan for state employees.

Additional legislation that moves states away from the defined-benefit structure is almost certain to come in future years. California Gov. Jerry Brown has proposed a hybrid plan to address his state's well-known pension crisis. Aggressive reform legislation is also currently being debated in Kansas and Louisiana.

To be fair, many of these states have, quite frankly, poorly managed their pension systems and have brought on a financial apocalypse as a result. Ohio does not face that catastrophe. Yet, we should not forget that a mere three years ago both STRS and OP&F were pushing plans that would have increased the taxpayer funded employer share of the contribution.[6] STRS wanted to go from 14 percent to 16.5 and O&F was suggesting a gradual phase in to up to 25 percent to shore up their systems. Clearly there is an appetite in some circles to force taxpayers into what amounts to bailouts when market returns decline. While that argument has failed for the time being, a different political context could easily yield different results that could be detrimental to taxpayers.

The current reforms being envisioned stall such a possibility from re-emerging in the near term, but they do not permanently prevent it. Why not strike now while the moment is ripe and the debate is open?

Even if the General Assembly believes a mandatory defined-contribution or hybrid is a bridge too far, perhaps, the default presumption for new employees should shift from the defined-benefit pension to one of the others. This would still give all workers the opportunity to opt for the defined benefit plan, but would likely shift a significant number to more sustainable and more flexible models over time.

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[5] Dreyfuss, Richard. "Estimated Savings from Michigan's 1997 State Employees Pension Reform Plan Reform," Mackinac Center for Public Policy, 7 May 2012.
[6] Steve Wartenberg, "Pension Plans Outline Reforms," Columbus Dispatch, September 10, 2009, at http://www.dispatch.com/ content/stories/local/2009/09/10/PENSION_MEETINGS.ART_ART_09-10-09_A1_OPF1BFJ.html (September 4, 2011).

The Buckeye Institute is familiar with many of the arguments against these ideas. These include: risk adjustments and diffusion of costs that traditional defined-benefit plans have, the transaction costs of fully defined contribution plans, the potential lack of investment sophistication of many state employees, and the dreaded "transition cost" associated with closing a defined benefit system. These are legitimate points. But they are points made to perpetuate a comfortable status quo in a time of great change.

For many years Ohio could afford its defined-benefit pension plans. Under perfect circumstances, it might still be able to. But with a rapidly changing economy, this assumption cannot be guaranteed and taxpayers should not be the ones asked to take on the heightened risk of providing guaranteed pensions to government employees that exceed what most in the private sector receive.

Not only is it questionable whether the days of guaranteed high market returns are gone, but the issue of fairness confronts us quite clearly. It is time be forward thinking, to change before events force our hand, and establish a retirement system that reflects the economy of the 21st Century.

Thank you for your time. I would be more than willing to answer any questions you may have for me.

Witness Information Form

Please Complete the Witness Information Form Before Testifying

Date: 8/22/2012

Name: Bruce Johnson

Organization (If Applicable): Inter-University Council of Ohio

Position/title: President & CEO

Address: 10 W. Broad St. Suite 450

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Are You Representing: Yourself____ Organization ✓

Do You Wish to Testify On:

- Legislation (bill number): SB 341, 342, 343
- Specific issue: ____
- Subject matter: Pension Reform

Are You Testifying as a:

- Proponent: ✓
- Opponent: ____
- Interested Party: ____

Do you have a written statement, visual aids, or other material to distribute?

Yes ✓ No____

(If yes, please provide copies to the Chairman or Committee Clerk)

How much time will your testimony require? ____

- *Committee Chair may limit testimony in the interest of time*

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BEFORE THE HOUSE HEALTH AND AGING SUBCOMMITTEE
ON
RETIREMENT AND PENSIONS

REPRESENTATIVE KIRK SCHURING
CHAIR

TESTIMONY
OF
BRUCE JOHNSON
INTER-UNIVERSITY COUNCIL OF OHIO

AUGUST 22, 2012

Chairman Schuring and members of the Subcommittee, good afternoon. Thank you for the opportunity to testify before you today on S.B. 341 (SERS), S.B. 342 (STRS), and S.B. 343 (PERS) – the three pension reform bills that impact employees at Ohio's public universities. My name is Bruce Johnson and I am the President and CEO of the Inter-University Council of Ohio. Thank you for realizing the urgency of this matter and recognizing the need to act now to reform Ohio's pension systems.

The IUC was established in 1939 as a voluntary educational association of Ohio's public universities. Today, the association represents all of Ohio's fourteen public universities. The IUC values providing access to a high quality, affordable education and is committed to efficiency and productivity for the more than 333,000 students attending our member institutions. The fourteen member institutions employ over 80,000 faculty and staff, most of whom contribute to OPERS, STRS, or SERS.

Collectively, Ohio's public universities represent the key to Ohio's future economic growth and stability. A critical component of the IUC's mission is the capability of each institution to attract and retain world-class faculty and highly talented staff. The quality of our faculty and staff is an attribute that differentiates Ohio from the rest of the country and our international competitors. An integral factor in achieving and maintaining the employment of world-class faculty and staff is a secure and competitive retirement program. For this reason, the IUC supports the recommendations the three retirement systems have made to reform their respective funding plans.

The IUC supports the recommendations included in these three bills because the systems have essentially achieved the three goals most important to our public universities:

a.) Improving the health of each system and ensuring its long-term viability;
b.) Preserving the defined benefit plans offered to participants and retirees;
c.) Preserving healthcare for retirees.

Importantly, these goals are achieved without increasing employer contribution rates. After reviewing the recommendations proposed by each system, the IUC believes that the burden of change is shared equitably among active employees and retirees, and between employers and employees.

Preserving a defined benefit plan will have a positive impact on faculty and staff attraction and retention efforts. These pension plans foster attachment between faculty and staff and their jobs and are consistent with public sector human resources goals. Maintaining a contribution for the preservation of the healthcare component will ensure the continuation of an affordable, pre-funded healthcare benefit for retirees. Such an investment will reduce the risk of poverty and material hardship among older Ohioans.

The IUC will continue to work with various stakeholder groups, like HPA – Healthcare & Pension Advocates for STRS – to which we belong, the retirement systems, and the General Assembly as consideration of this legislation continues. While the plans have certain similarities, there are distinct difference in each plan's current funded status, member demographics, and current plan design. The recommendations made by each system reflect those differences and the unique requirements of the participants and are appropriately designed to meet the need of the system. The IUC remains committed to helping shape the best pension systems in the country.

Thank you again, Mr. Chairman and members of the Subcommittee. I am happy to answer any question.

Witness Information Form

Please Complete the Witness Information Form Before Testifying

HARBUCK?

Date: 22 AUGUST 2012

Name: THOMAS ASH JULIE DAVIS JAMES HARBUCK

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Are You Representing: Yourself______ Organization X

Do You Wish to Testify On:

- Legislation (bill number): SB 342
- Specific issue: RETIREMENT (STRS) REFORM
- Subject matter:______

Are You Testifying as a:

- Proponent: X
- Opponent: ______
- Interested Party: ______

Do you have a written statement, visual aids, or other material to distribute?

Yes X No___

(If yes, please provide copies to the Chairman or Committee Clerk)

How much time will your testimony require? 5 MINUTES

- *Committee Chair may limit testimony in the interest of time*

Chair Schuring and members of the Retirement and Pensions Subcommittee of the Ohio House Health and Aging Committee, thank you for the opportunity to testify in support of Senate Bill 342, which addresses the long term sustainability of the State Teachers Retirement System (STRS). My name is Thomas Ash, and I am the Director of Governmental Relations for the Buckeye Association of School Administrators (BASA), which represents superintendents, other central office administrators, and some college faculty members in educational administration. Joining me for the testimony are Dr. Julie Davis, Executive Director of the Ohio Association of Elementary School Administrators (OAESA), and James Harbuck, Executive Director of the Ohio Association of Secondary School Administrators (OASSA).

First, our organizations commend the Ohio General Assembly's concern for the need to address the pension reforms necessary to preserve the retirement not only of current retirees but also of those professional educators who look forward to their retirement in the future. This concern not only recognizes the challenges faced by public retirement systems in Ohio but also demonstrates political will and courage since any reforms will of necessity require some reduction in benefits and an increase in active member contributions.

Second, our three organizations have a history in collaborating with STRS. About eight years ago, our associations joined the coalition which is now the STRS Healthcare and Pension Advocates (HPA). At that time, HPA was addressing the challenges facing the system's health insurance fund, but the scope of that concern widened to include pensions when the funding period far exceeded the statutory limit of 30 years. We join with HPA in supporting this legislation.

In addition, BASA has a standing committee which meets four times each year with STRS staff to explore issues and exchange information.

We support: the phasing in of the increased years of service; the suspension of the cost of living allowance in FY 2014 and the reduction of the cost of living allowance (COLA) to 2%; the five-year delay for new retirees after July 1, 2013 in receiving the COLA; the calculation of the final average salary based on five rather than three years; the increase in member contributions by 1% each year until that contribution reaches 14%; and the reduction in the percentage for each year of service to 2.2% per year. We also support no increase in the employer contribution.

We encourage flexibility for the board governing STRS. Since those members already have the fiduciary responsibility for the soundness of the system, it is appropriate to give the board the authority to make changes to retirement eligibility and to employee contributions through administrative rules and oversight by the Ohio Retirement Study Council in order to keep the system within the thirty-year funding period.

The BASA membership is perhaps unique among organizations which will testify before this committee. Not only are our members active members of STRS, but also they represent the employers. Ultimately, they are responsible for collective bargaining with their employees.

BASA members, along with treasurers/chief financial officers, are ultimately responsible for the budgets of their employing school districts. In essence, they are affected not only by retirement costs but also by the effect these changes have on their own futures.

Moreover, members of all three associations tend to be older as they have ascended to their current leadership roles after service as teachers. In addition, according to a survey from last fall, each of the BASA members has served in his or her current position for a little less than six years. This suggests that the majority of our members are probably within ten years of the current minimum thirty-year retirement eligibility. They understand that will mean that they will work longer; in the case of average member of each of our associations, it will mean at least four additional years of service in order to receive an unreduced benefit.

However, they also understand the cost of doing nothing. The long term preservation of the system overshadows the sacrifices that must be made now.

Chair Schuring, BASA, OAESA, and OASSA support the changes as presented in Senate Bill 342, and we encourage the House Health and Aging Committee to favorably report the bill. Thank you for this opportunity to address this critical piece of legislation, and we would be happy to attempt to respond to any questions.