

# OPERS: Addressing the Present, Planning for the Future

The Ohio Public Employees Retirement System (OPERS) is the largest pension system in Ohio. Entering its 75th year of service, more than 166,500 retirees and 356,000 active public workers look to OPERS for a secure retirement, now and in the future.

The pension system has weathered decades of economic ups and downs. Each time, it has emerged stronger because the Board of Trustees planned for the future and listened to stakeholders allowing the Board to address issues quickly.

Most recently, on Nov. 18, the Board recommended to the legislature a series of changes to benefits designed to strengthen the pension system and with the added goal of maintaining adequate funding for health care. Depending on legislative implementation, the recommended changes to benefits will build on past actions by the Board to prepare for longer life expectancies of retirees, to encourage member engagement in their retirement planning and to correct inequities resulting from benefit subsidization.

## **The Rationale for Change**

Even before the 2008 economic decline, OPERS embarked on a series of measures to strengthen the pension and health care funds for the future. Through it all, the OPERS Board sought to find the right balance. The result has been a long-term strategic approach that minimizes undue hardship on members and employers while laying the foundation for future changes that continue to strengthen the fund and address issues where certain benefits are subsidized by members who receive no value from those benefits. Previous actions included:

- Implementing a far reaching Health Care Preservation Plan (HCPP) that restructured health care offerings and adopted a long term investment strategy separate from that of pensions.
- Maintaining a separate health care trust fund that currently stands at \$11.2 billion.
- Proposing legislation designed to raise the minimum earnable salary required to receive full service credit and eliminate unfair subsidization of benefits such as service purchases.\*
- Proposing changes to its disability program to help members get back to work through active case management and tightening procedures to encourage proper retirement plan choices.\*
- Readjusting contribution allocations to pensions and adjusting investment asset allocations to ensure compliance with the 30-year funding requirement in light of declining economic conditions.

\* Passage of the above measures that require legislation will help OPERS remain within the 30-year funding requirement.

## **The Goals**

### ***The goals are simple:***

- Keep OPERS within the 30-year timeframe required for paying off pension liabilities as specified in Ohio law.
- Demonstrate the vitality of our retirement system, by explaining the economic value that OPERS provides the state of Ohio, our local communities and members.
- Preserve the viability of the OPERS health care plan for current and future retirees.
- Make sure select benefits are actuarially neutral that are now subsidized unfairly by all members, such as service purchases.
- Adjust the benefit plan to accommodate the lengthening life span of retirees.
- As with HCPP, phase-in changes so that members have adequate time to adjust plans if necessary.

By achieving these goals, and assuming a return to positive market conditions, OPERS will be in a stronger position to continue providing secure pension benefits and accommodate the growing numbers of retiring baby boomers.

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**Changes to  
Current  
Plan Design**

Each Ohio retirement system has a unique population and benefit structure. The OPERS Board has evaluated options, some of which were requested by the Ohio Retirement Study Council (ORSC), which is the legislative oversight body for Ohio's public retirement systems, and considered what changes should be made. Consistent with their proactive approach to plan design of making incremental changes over time, the OPERS Board has recommended the following benefit changes, which must be enacted by the Ohio General Assembly.

**Age & Service Eligibility** – Add two years to the current plan. \*\*

\*\* *Currently 30 years of service, at any age or age 65 with five years of service for an unreduced pension. For a reduced pension, retirement at age 55 with 25 years of service or age 60 with five years of service.*

\*\* *Recommended plan: 32 years of service, minimum age 55 or age 67 with five years of service for an unreduced pension. For a reduced pension, retirement at age 57 with 25 years of service or age 62 with five years of service.*

**Note:** *Members of law enforcement and public safety divisions have different age and eligibility criteria and benefit formula calculation depending on when they retire. Please visit [www.opers.org](http://www.opers.org) for details.*

**Benefit Formula** – Maintain the current 2.2% x Final Average Salary (FAS) but increase the time frame that the multiplier increases to 2.5% from 30 years of service to 35 years.

**Final Average Salary (FAS)** – Change the FAS calculation from the three highest calendar years of earnings to the five highest calendar years of earnings.

**Cost of Living Adjustment (COLA)** – Replace the current 3% simple COLA with a simple COLA equal to the change in the Consumer Price Index up to 3%. This change would not apply to current OPERS retirees.

**Contribution Rate** – No change in the current contribution rates, Members (10%) and Employers (14%).

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**Transition  
Period**

How we transition to this new plan will be important. The Board recommended the following three-group phase-in once legislation is passed. This will ensure adequate notice of the transition to our members.

**Group A** – Must be eligible to retire within five years after the effective date of the legislation. *Grandfathered except for COLA provision, current plan design applies.*

**Group B** – Must have 20 or more years of service credit by the effective date of the legislation or be eligible to retire within 10 years after the effective date of the legislation. *Grandfathered except for COLA provision. Those seeking an early retirement will have their pension reduced to reflect longer life expectancies.*

**Group C** – All others. *All elements of the new plan design apply.*

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## CHANGES TO CURRENT PLAN DESIGN

*Recommended by the OPERS Board*

*Requires the passage of legislation in the Ohio General Assembly*

	Current Plan	Recommended Plan
<b>* Age &amp; Service Eligibility</b>	Unreduced - 30 years, at any age or age 65 with 5 years of service	Unreduced - 32 years, minimum age 55 or age 67 with 5 years of service
	Reduced - age 55 with 25 years of service or age 60 with 5 years	Reduced - age 57 with 25 years of service or age 62 with 5 years
<b>* Benefit Formula</b>	2.2% x FAS for first 30 years of service; 2.5% thereafter	2.2% x FAS for first 35 years of service; 2.5% thereafter
<b>Final Average Salary (FAS)</b>	Base FAS on three highest years of earnings	Base FAS on five highest years of earnings
<b>Cost of Living Adjustment (COLA)</b>	3% simple COLA	COLA = change in the Consumer Price Index, not to exceed 3%.
	Timing - COLA begins 12 months after retirement	No change
<b>Contribution Rate</b>	Members - 10% Employers - 14%	No change
<b>Implementation</b>		<b>Group A:</b> Current members eligible to retire within 5 years after the effective date of the legislation are grandfathered, current system applies. No change to COLA during transition period.
		<b>Group B:</b> Current members with at least 20 years of service on the effective date of the legislation or eligible to retire within 10 years after the effective date of the legislation are grandfathered except for those seeking a reduced pension. No change to COLA during five year transition period.
		<b>Group C:</b> Current members with less than 20 years of service on the effective date of the legislation: All elements of the new plan apply.

**\*Note:** Members of law enforcement and public safety divisions have different age and eligibility criteria and benefit formula calculation depending on when they retire. Please see [www.opers.org](http://www.opers.org) for details on the recommended benefit changes for these divisions.

### Next Steps

For more information, our Web site, [www.opers.org](http://www.opers.org) will have the most up to date information.

OPERS will now work with the ORSC and the Ohio General Assembly as they review the various plans from the five Ohio public pension systems. While the plans have certain similarities, there are also significant differences depending on each system's current funded status, member demographics and current plan design.

Meanwhile, as work with the General Assembly moves forward, OPERS will continue meeting with our stakeholder groups and will communicate with members and retirees to continue explaining the changes, answer questions and report progress.