

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



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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:

- The benefit calculated upon retirement under the new benefit formula, or
- 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.

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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



State Teachers Retirement System of Ohio
Resources



WEB

www.strsoh.org
24 hours a day

contactus@strsoh.org to email



CALL

Member Services Center
1-888-227-7877 (toll-free)
8 a.m. to 5 p.m.
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